SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended June 30, 2003

Commission File Number 000-49602

SYNAPTICS INCORPORATED

(Exact Name of Registrant as Specified in Its Charter)

Delaware	77-0118518
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2381 Bering Drive San Jose, California	95131
(Address of Principal Executive Offices)	(Zip Code)

(408) 434-0110

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(g) of the Exchange Act:

Common Stock, par value $.001 per share

(Title of Class)

Preferred Stock Purchase Rights

(Title of Class)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes [X] No [ ]

The aggregate market value of Common Stock held by nonaffiliates of the registrant (22,493,237 shares) based on the closing price of the registrant's Common Stock as reported on the Nasdaq National Market on December 31, 2002, was $170,948,601. For purposes of this computation, all officers, directors, and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such officers, directors, or 10% beneficial owners are, in fact, affiliates of the registrant.

As of September 5, 2003, there were outstanding 24,033,525 shares of the registrant's Common Stock, par value $.001 per share.

Documents Incorporated by Reference

Portions of the registrant's definitive Proxy Statement for the 2003 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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Statement Regarding Forward-Looking Statements

The statements contained in this report on Form 10-K that are not purely historical are forward-looking statements within the meaning of applicable securities laws. Forward-looking statements include statements regarding our "expectations," "anticipation," "intentions," "beliefs," or "strategies" regarding the future, whether or not those words are used. Forward-looking statements also include statements regarding revenue, margins, expenses, and earnings analysis for fiscal 2003 and thereafter; technological innovations; products or product development, including their performance, market position, and potential; our product development strategies; potential acquisitions or strategic alliances; the success of particular product or marketing programs; the amounts of revenue generated as a result of sales to significant customers; and liquidity and anticipated cash needs and availability. All forward-looking statements included in this report are based on information available to us as of the filing date of this report, and we assume no obligation to update any such forward-looking statements. Our actual results could differ materially from the forward-looking statements. Among the factors that could cause actual results to differ materially are the factors discussed in Item 1, "Business – Risk Factors."

PART I

ITEM 1. BUSINESS

Overview

We are the leading worldwide developer and supplier of custom-designed user interface solutions for notebook computers. In our fiscal year ended June 30, 2003, we estimate that more than half of all notebooks shipped contained our products. Our original equipment manufacturer, or OEM, customers include the world's ten largest PC OEMs. We generally supply our OEM customers through their contract manufacturers, which take delivery of our products and pay us directly for them. These contract manufacturers include Arima, Compal, Elitegroup Computers, Foxconn, Inventec, and Shanghai Yi Hsin.

The latest industry projections for notebook shipments for 2003-2007 show a compound annual growth rate of 12.9% compared to 7.2% for desktop computers, reflecting the continuing trend toward mobile computing and remote access. Based on the strength of our technology and engineering know-how, we believe we are well positioned to take advantage of the growth opportunity in the notebook market and to provide innovative, value-added interface solutions for each of the key end-user preferences. We estimate that in fiscal 2003 approximately 63% of all notebook computers sold used solely a touch pad interface; 16% used solely a pointing stick interface; and 21% used a dual pointing interface, which consists of both a touch pad and a pointing stick. Our notebook product lines of touch pads and pointing sticks allow us to address 100% of the total notebook market.

Our TouchPad™ is a small, touch-sensitive pad that senses the position of a person's finger on its surface to provide screen navigation, cursor movement, and a platform for interactive input. Our TouchPads offer various advanced features, such as virtual scrolling; customizable tap zones to simulate mouse clicks, launch applications, or perform other select functions; Palm Check™ to eliminate false activation; and Edge Motion™ to continue cursor movement when the user's finger reaches the edge of the touch pad. Our TouchPads are custom designed to meet our OEM customers' specifications regarding electrical interface, size, thickness, functionality, and driver software for various advanced features and operating systems. Our pointing stick solutions, including TouchStyk™, our proprietary pointing stick solution, enable computer manufacturers to offer end users the choice of a touch pad, a pointing stick, or a combination of both interface devices. TouchStyk is a self-contained, easily integrated module that uses similar sensing technology as our TouchPad. Our QuickStroke® provides a fast, easy, and accurate way to input Chinese characters. Using our patented pattern recognition software with our TouchPad, QuickStroke can recognize handwritten, partially finished Chinese characters, thereby saving the end user considerable time and effort.

We believe our extensive intellectual property portfolio, our experience in providing interface solutions to major OEMs, and our proven track record of growth in our expanding core notebook computer interface business positions us to be a key technological enabler for multiple applications in many markets. Based on these strengths, we are addressing the opportunities created by the growth of a new class of mobile computing and communications devices, which we call information appliances, or "iAppliances," as well as a variety of other electronic devices. iAppliances include personal digital assistants, or PDAs, smart phones, and MP3 portable jukeboxes as well as a variety of mobile, handheld, wireless, and Internet devices. Other electronic devices include Touchpads for set-top box remote controls for Internet access and home entertainment utilizing the user's television screen as the monitor as well as touch screens for use in ATMs, kiosks, Web phones, and interactive gaming machines. We believe our existing technologies, our new product solutions, and our emphasis on ease of use, small size, low power consumption, advanced functionality, durability, and reliability will enable us to penetrate the markets for iAppliances and other electronic devices.

We continually strive to introduce new user interface solutions, including solutions for iAppliance and other electronic devices. Current solutions include ClearPad™ and Spiral™ as well as our new touch sensitive scroll wheel, integrated fingerprint touch pad module, touch pads with embedded character recognition software, and touch sensing modules for large touch screens. Our ClearPad touch screen solution is a thin sensor that can be placed over any surface, including display devices, such as liquid crystal displays, or LCDs. The ClearPad is a lightweight, low power consumption solution, and its flexible design allows it to be mounted on curved surfaces, such as the lens of a cellular phone. ClearPad is an extension of our capacitive technologies. Our Spiral is a thin, lightweight, low power consumption, inductive pen-sensing system. The Spiral sensor lies behind an LCD screen, effectively permitting 100% light transmissivity and lower overall power consumption resulting from reduced backlighting requirements. Spiral uses a patented inductive coupling technology that offers the unique feature of proximity sensing to measure the position of the pen relative to the pen-based device. Our TouchRing™ is an integrated solid-state interface circular scrolling wheel utilizing our capacitive touch sensing technology that enables the user to navigate through menus and scroll through lists. Our fingerprint recognition touch pad combines our TouchPad with an advanced biometric sensor and software to provide a complete biometric security solution for notebook OEMs. The fingerprint recognition features of the TouchPad replace the need for a user name and password combination with the user's fingerprint. The fingerprint recognition touch pad has the dual advantage of providing security by restricting login access to anyone other than the rightful user and providing user convenience by making it easier and faster to log in since a user name and password are not needed. Our TouchPad with embedded Chinese character recognition software, allows users to interface application specific content, such as electronic payment processing, map locators, and short messaging services.

ClearPad's first application is in a high-end Toshiba notebook. A version of our Spiral technology is being developed as a user interface for accessing, navigating, and managing, content rich information delivered to mobile phones. Our TouchRing, which enables the user to navigate through menus and scroll through play lists and songs, is being used in a leading MP3 player. Our integrated Fingerprint TouchPad module is included in Samsung's Sens X10 notebook. Our TouchPad with embedded Chinese character recognition software is being used in public pay telephones of a China-based telecommunications company to provide users easy access to application specific content, such as electronic payment processing, map locaters, and short text messaging services. The first application for the touch sensing module for the large touch screens is in ATM machines.

Our website is located at www.synaptics.com. Through our website, we make available free of charge our annual reports on Form 10-K, our proxy statements, our quarterly reports on Form 10-Q, and our current reports on Form 8-K as well as Form 3, Form 4, and Form 5 Reports for our directors, officers, and principal stockholders, together with amendments to those reports filed or furnished pursuant to Section 13(a), 15(d), or 16 under the Securities Exchange Act. These reports are available as soon as reasonably practicable after their electronic filing with the Securities and Exchange Commission.

Our Strategy

Our objective is to continue to enhance our position as the world's leading supplier of interface solutions for the notebook computer market and to become a leading supplier of interface solutions for other markets, including the markets for iAppliances and other electronic devices. Key aspects of our strategy to achieve this objective include the following:

Extend Our Technological Leadership

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

Enhance Our Leadership Position in the Notebook Computer Market

We intend to continue to introduce market-leading interface solutions in terms of performance, functionality, size, and ease of use. Our touch stick solutions, including our proprietary TouchStyk, enable us to address both the pointing stick and the expanding dual pointing segments of the notebook interface market. Our pen-sensing applications, multi-finger gestures, and scroll strip products are designed to provide additional functionality that results in competitive advantages. Our HyperThin TouchPad solution allows our customers to design and produce even thinner notebook computers.

Capitalize on Growth of New Markets

We intend to capitalize on the growth of new markets, including the iAppliance markets, brought about by the convergence of computing and communications. We plan to offer innovative, easy-to-use interface solutions that address the evolving portability, connectivity, and functionality requirements of these new markets. We plan to offer these solutions to existing and potential OEM customers as a means to increase the functionality, reduce the size, lower the cost, and enhance the user experience of our customers' products. We plan to utilize our existing technologies as well as aggressively pursue new technologies as new markets evolve and demand new solutions.

Emphasize and Expand Customer Relationships

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

Pursue Strategic Relationships and Acquisitions

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

Continue Virtual Manufacturing

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

Product Solutions

We develop, acquire, and enhance interface technologies that enrich the interaction between people and mobile computing and communications devices. Our innovative and intuitive interfaces can be engineered to accommodate many diverse platforms. Our extensive array of technologies includes ASICs, firmware, software, and pattern recognition and touch sensing technologies.

Through our technologies, we seek to provide our customers with customized solutions that address their individual design issues and result in high-performance, feature-rich, and reliable interface solutions. Our TouchStyk addresses the pointing stick and dual pointing portions of the notebook computer market; our ClearPad addresses the notebook computer and iAppliance markets; and our Spiral solution addresses the iAppliance markets. We believe our interface solutions offer the following characteristics:

- *Ease of Use*. Our interface solutions offer the ease of use and intuitive interaction that users demand.
- *Small Size*. The small, thin size of our interface solutions enables our customers to reduce the overall size and weight of their products in order to satisfy consumer demand for portability.
- *Low Power Consumption*. The low power consumption of our interface solutions enables our customers to offer products with longer battery life or smaller battery size.

- *Advanced Functionality*. Our interface solutions offer advanced features, such as virtual scrolling, customizable tap zones, edge motion, and tapping and dragging icons, to enhance user experience.

- *Reliability*. The reliability of our interface solutions satisfies consumer demand for dependability, which is a major component of consumer satisfaction.

- *Durability*. Our interface solutions withstand repeated use, severe physical treatment, and temperature fluctuations while providing a superior level of performance.

We believe these characteristics will enable us to maintain our leadership position in the notebook computer market and will enhance our position as a technological enabler of iAppliances and other electronic devices and a differentiator for OEMs of these products.

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

- customized, modular integration;

- reduced product development costs;

- shorter product time to market;

- compact and efficient platforms;

- improved product functionality and utility; and

- product differentiation.

We work with our customers to customize our solutions in order to meet their design requirements. This collaborative effort reduces the duplication and overlap of investment and resources, enabling our OEM customers to devote more time and resources to the market development of their products.

We utilize capacitive and inductive technologies rather than traditional resistive technology in our product solutions. Unlike resistive technology, our capacitive and inductive technologies require no activation force, thereby permitting easy movement across the touch surface, and use no moving parts. Our capacitive technology also can be integrated with both curved and flat surfaces.

Capacitive and inductive technologies provide additional key benefits over resistive technology. Capacitive and inductive sensors are fabricated without the air or liquid gap required by resistive technology, reducing undesirable internal reflections and the power requirements for the LCD backlight, thereby extending the battery life of small handheld devices. Capacitive and inductive technologies also allow for much thinner sensors than resistive technology, allowing for slimmer, more compact, and unique industrial designs.

Products

We offer customers user interface solutions that provide competitive advantages. Our family of product solutions allows our customers to solve their interface needs and differentiate their products from those of their competitors.

TouchPad™

Our TouchPad, which takes the place and exceeds the functionality of a mouse, is a small, touch-sensitive pad that senses the position of a person’s finger on its surface through the measurement of capacitance. Our TouchPad provides an accurate, comfortable, and reliable method for screen navigation and cursor movement, and provides a platform for interactive input, which allows our customers to provide stylish, simple, user-friendly, and intuitive interface solutions for both the consumer and corporate markets. Our TouchPads offer various advanced features, including the following:

- *Virtual scrolling.* This feature enables the user to scroll through any document by swiping a finger along the side or bottom of the TouchPad.
- *Customizable tap zones.* These zones permit separate portions of the TouchPad to be used to simulate mouse clicks, launch applications, and perform other selected functions.
- *Palm Check.* Palm Check eliminates false activation when a person's palm accidentally rests on the TouchPad.
- *Edge Motion.* This permits cursor movement to continue when a user's finger reaches the edge of the TouchPad.
- *Tapping and dragging of icons.* This feature allows the user to simply tap on an icon in order to drag it, rather than being forced to hold a button down in order to drag an icon.
- *Multi-finger gestures.* This feature allows the user to designate specific actions when more than one finger is used on the TouchPad.

Our TouchPads are designed to meet the electrical and mechanical specifications of our customers. Customized firmware and driver software ensure the availability of specialized features.

Utilizing our TouchPad technology, we have introduced our ScrollStrip™, a touch-sensitive device similar to a TouchPad. Our initial target applications include the integration of the scroll strip in keyboards, external mice, and portable communication devices. Users can take advantage of the scroll strip to easily scroll up and down Web pages or word processing documents. Future applications for the scroll strip may include cellular phones and other communications and computing devices.

TouchPad Under Plastic

Our TouchPad under plastic, which operates in a manner similar to our other TouchPads, provide our customers with unique design opportunities. Placing the TouchPad sensor underneath the plastic palm rest allows for a streamlined stylized design. Our TouchPad under plastic is now available in the Toshiba Dynabook and the Asutek M3 notebook.

TouchStyk™

TouchStyk, our proprietary pointing stick interface solution, is a self-contained, easily integrated module that uses similar capacitive technology as our TouchPad. TouchStyk is enabled with press-to-select and tap-to-click capabilities and can be easily integrated into multiple computing and communications devices. We have reduced the number of components needed to control the pointing device, allowing the electronics for the TouchStyk to be mounted directly on the printed circuit board, or PCB, of the unit. In addition, this design greatly reduces susceptibility to electromagnetic interference, thereby providing greater pointing accuracy and preventing the pointer from drifting when not in use.

We are currently shipping our TouchStyk in both notebooks that utilize the pointing stick as the sole interface solution and notebooks that utilize dual pointing interface solutions. Our modular approach allows OEMs to include our TouchPad, our TouchStyk, or a combination of both interfaces in their notebook computers.

Dual Pointing Solutions

Our dual pointing solutions offer both a touch pad and a pointing stick in a single notebook computer, enabling users to select their interface of choice. Our dual pointing solution also provides the end user the ability to use both interfaces interchangeably. Our dual pointing solution provides the following advantages:

- cost-effective and simplified OEM integration;

- simplified OEM product line since one device contains both solutions;
- single-source supplier, which eliminates compatibility issues; and
- end user flexibility since one notebook can address both user preferences.

We have developed two solutions for use in the dual pointing market. Our first solution integrates all the electronics for controlling a third-party resistive strain gauge pointing stick onto our TouchPad PCB. This solution simplifies OEM integration by eliminating the need to procure the pointing stick electronics from another party and physically integrate them into the notebook. Our second dual pointing solution uses our TouchStyk rather than a third-party pointing stick, and offers the same simplified OEM integration. The second solution is a completely modular design, allowing OEMs to offer TouchPad-only, TouchStyk-only, or dual pointing solutions on a build-to-order basis.

ClearPad™

ClearPad, our innovative and customizable touch screen solution, consists of a clear thin sensor that can be placed over any viewable surface, including display devices such as LCDs. ClearPad is controlled by a small electronics module, which can be located remotely from the sensor. Similar to our traditional TouchPad, our ClearPad has various distinct advantages, including light weight; low profile form factor; high reliability, durability, and accuracy; and low power consumption. In addition, ClearPad enables visual information display in conjunction with touch commands.

We have used our ClearPad technology to develop our cPad™, a product solution that replaces the touch pad in notebook computers. Our cPad solution consists of a ClearPad mounted over an LCD display. This solution provides all of the features of a standard touch pad while providing information content and additional features, including an application launcher, calendar, calculator, and signature input. We have developed this solution with a USB interface for significant and rapid data transfer and easy integration into notebook computer designs.

Spiral™

Spiral is a thin, lightweight, low power, inductive pen-sensing solution. The Spiral sensor lies behind an LCD screen, effectively permitting 100% light transmissivity and lower overall power consumption resulting from reduced backlighting requirements. Spiral uses a patented inductive coupling technology that offers the unique feature of proximity sensing, which measures the precise position of the tip of the pen relative to a pen-based device. This feature enhances applications by providing better user interaction and experience. Spiral also has a high tolerance to user abuse. Spiral combines 100% light transmissivity, high accuracy, high noise immunity, and a passive stylus into a solution that provides alternatives for richer user interfaces. We anticipate that Spiral will be used in new markets that require high-quality pen-based solutions.

QuickStroke®

QuickStroke provides a fast, easy, and accurate way to input Chinese characters. Using our recognition technology that combines our patented software with our TouchPad, QuickStroke can recognize handwritten, partially finished Chinese characters, thereby saving considerable time and effort. Our QuickStroke operates with our touch pad products that can be integrated into notebook computers, keyboards, and a host of stand-alone interface devices that use either a pen or a finger.

Our patented Incremental Recognition Technology allows users to simply enter the first few strokes of a Chinese character and QuickStroke accurately interprets the intended character. Since the typical Chinese character consists of an average of 13 strokes, QuickStroke technology saves considerable time and effort. QuickStroke provides a solution to enhance Chinese communication for both business and personal use electronic devices.

Chinese Character Recognition TouchPad

Our TouchPad with embedded Chinese character recognition software is being integrated into public pay phones in China, allowing users to interface application specific content, such as electronic payment processing, map locators, and short text messaging services.

Fingerprint Touch Pad

Our fingerprint touch pad module combines our TouchPad with an advanced biometric sensor and software to provide a fully integrated biometric security and interface solution. The fingerprint recognition features of our integrated module replace the need for a user name and password combination with the user's fingerprint. The integrated fingerprint recognition touch pad module has the dual advantage of providing security by restricting login access to anyone other than the rightful user and providing user convenience by making it easier and faster to log in since a user name and password are not needed. The first application of our integrated fingerprint recognition touch pad module is in Samsung's Sens X10 notebook.

TouchRing™

Our TouchRing is an integrated solid-state interface circular scrolling wheel utilizing our capacitive touch sensing technology that enables the user to navigate through menus and scroll through lists. The first application of our TouchRing is in a leading MP3 player in which the scroll wheel enables the user to navigate through menus and scroll through play lists and songs.

TouchScreen

Our TouchScreen systems provides a user interface solution for use with ATMs, ticket machines, medical displays, industrial displays, pay-at-the-pump gas machines, and interactive kiosks. The first application of our TouchScreen is in an ATM sold by Diebold.

Technologies

We have developed and own an extensive array of technologies encompassing ASICs, firmware, software, and pattern recognition and touch sensing technologies. With 69 U.S. patents issued and 29 U.S. patents pending, we continue to develop technology in those areas. We believe these technologies and the related intellectual property create significant barriers for competitors and allow us to provide interface solutions in a variety of high-growth market segments.

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

- capacitive position sensing technology;
- capacitive force sensing technology;
- transparent capacitive position sensing technology;
- inductive position sensing technology;
- pattern recognition technology;
- mixed signal very large scale integrated circuit, or VLSI, technology; and
- proprietary microcontroller technology.

In addition to these technologies, we have the core competency of developing software that provides unique features, such as virtual scrolling, customizable tap zones, Palm Check, Edge Motion, tapping and dragging of icons, and multi-finger gestures. In addition, our ability to integrate all of our products to interface with major operating systems, including Windows 98, Windows 2000, Windows NT, Windows CE, Windows XP, Windows ME, Mac OS, Pocket PC, Palm OS, Symbian, UNIX, and LINUX, provides us with a competitive advantage.

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

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

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

Inductive Position Sensing Technology. This technology provides a method for sensing the presence and position, in three dimensions, of a pen on surfaces like the touch screen used in smart handheld devices. The sensor board can be placed behind the display screen, such as an LCD, thus eliminating any undesirable reflections or transmissivity losses and the need for backlighting, which enhances battery life.

Pattern Recognition Technology. This technology is a set of software algorithms for converting real-world data, such as handwriting, into a digital form that can be recognized and manipulated within a computer, such as our QuickStroke product and gesture decoding for our TouchPad products. Our technology provides reliable handwriting recognition and facilitates signature verification.

Mixed Signal VLSI Technology. This hybrid analog-digital integrated circuit technology combines the power of digital computation with the ability to interface with non-digital real-world signals like the position of a finger or stylus on a surface. Our patented design techniques permit us to utilize this technology to optimize our core ASIC engine for all our products, which we believe provides cost and performance advantages over our competitors.

Proprietary Microcontroller Technology. This technology consists of a proprietary 16-bit microcontroller core embedded in the digital portion of our mixed signal ASIC, which allows us to optimize our ASIC for position sensing tasks. Our embedded microcontroller provides great flexibility in customizing our product solutions utilizing firmware, which eliminates the need to design new circuitry for each new application.

Competing Technology

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

Research and Development

We conduct active and ongoing research and development programs that focus on advancing our technologies, developing new products, improving design and manufacturing processes, and enhancing the quality and performance of our product solutions. Our goal is to provide our customers with innovative solutions that address their needs and improve their competitive positions. Our research and development concentrates on our market-leading interface technologies, improving our current product solutions, and expanding our technologies to serve new markets. Our vision is to develop solutions that integrate touch, handwriting, vision, and voice capabilities that can be readily incorporated into varied electronic devices.

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

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

As of June 30, 2003, we employed 111 people in our technology, engineering, and product design functions in the United States, the United Kingdom, and Taiwan. We also have an additional 6 engineering employees in Hong Kong, as a result of our acquisition of NSM Technology, which closed on June 26, 2003. Our research and development expenses were approximately $11.6 million in fiscal 2001, $16.6 million in fiscal 2002, and $19.8 million in fiscal 2003.

Intellectual Property Rights

Our success and ability to compete depend in part on our ability to maintain the proprietary aspects of our technologies and products. We rely on a combination of patents, copyrights, trade secrets, trademarks, confidentiality agreements, and other contractual provisions to protect our intellectual property, but these measures may provide only limited protection.

As of June 30, 2003, we held 69 U.S. patents and had 29 U.S. pending patent applications. These patents and patent applications cover various aspects of our key technologies, including touch sensing, pen sensing, handwriting recognition, customizable tap zones, edge motion, and virtual scrolling technologies. Our proprietary software is protected by copyright laws. The source code for our proprietary software is also protected under applicable trade secret laws.

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

Our extensive array of technologies includes ASICs, firmware, software, and pattern recognition and position sensing technologies. Any one of our products rely on a combination of these technologies, making it difficult to use any single technology as the basis for replicating our products. Furthermore, the length and customization of the customer design cycle serve to protect our intellectual property rights. Our research, design, and engineering teams frequently work directly with our OEM customers to design custom solutions for specific applications.

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

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

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

Customers

Our customers currently include the world’s ten largest PC OEMs, based on unit shipments, as well as a variety of consumer electronics manufacturers. Our demonstrated track record of technological leadership, design innovation, product performance, and on-time delivery have resulted in our serving as the sole source of notebook interfaces for some of our OEM customers. We believe our strong relationship with our OEM customers, many of which are currently developing iAppliance and other products, will position us as a primary source of supply for their product offerings.

Our OEM customers include the following:

- Acer
- Apple
- Asustek
- Dell
- Fujitsu/Siemens
- Gateway
- Gericom
- Hewlett-Packard
- IBM
- Samsung
- Sharp
- Sony
- Sotec
- Toshiba

We supply our OEM customers through their contract manufacturers. We sell our products directly to these contract manufacturers. These contract manufacturers include Arima, Compal, Elitegroup Computers, Foxconn, Inventec, and Shanghai Yi Hsin. During fiscal 2003, sales to Inventec accounted for approximately 14% of our revenue. No other customer accounted for more than 10% of our revenue during this period.

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

Strategic Relationships

We have established strategic relationships to enhance our ability to offer value-added customer solutions and rapidly gain market share. We intend to enter into additional strategic relationships with leading companies in our target markets.

Sales and Marketing

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

We currently employ 36 sales and marketing professionals. We maintain five sales offices domestically and internationally, which are in the United States, the United Kingdom, Taiwan, Japan, and Hong Kong. In addition, we utilize sales representatives in Singapore, Malaysia, Korea, United States, and Europe and sales distributors in Japan.

International sales, primarily in the Asian and European markets, constituted approximately 86%, 97%, and 96% of our revenue in fiscal 2001, 2002, and 2003, respectively. A significant portion of these sales were made to companies that provide manufacturing services for major notebook computer OEMs. All of these sales were denominated in U.S. dollars.

Manufacturing

We employ a virtual manufacturing platform through third-party relationships. We currently utilize one semiconductor manufacturer to supply us with our requirements for our proprietary ASICs utilized in our notebook interface solutions.

After production and testing, the ASICs are shipped to our subcontractors for assembly. During the assembly process, our ASIC is combined with other components to complete our product solution. The finished assembled product is then shipped by our subcontractors directly to our customers for integration into their products.

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

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

Backlog

As of June 30, 2003, we had a backlog of orders of approximately $12.9 million. The backlog of orders as of June 30, 2002 was approximately $7.9 million. Our backlog consists of product orders for which purchase orders have been received and which are scheduled for shipment within six months. Most orders are subject to rescheduling or cancellation with limited penalties. Because of the possibility of customer changes in product shipments, our backlog as of a particular date may not be indicative of net sales for any succeeding period.

Competition

Our principal competitor in the sale of notebook touch pads is Alps Electric, a Japanese conglomerate. Our principal competitors in the sale of notebook pointing sticks are Alps Electric, NMB, and CTS. In the iAppliance interface markets, our potential competitors include Alps Electric, Panasonic, Gunze, and various other companies involved in user interface solutions. In certain cases, large OEMs may develop alternative interface solutions for their own products.

In the notebook interface markets, we plan to continue to compete primarily on the basis of our technological expertise, design innovation, customer service, and the long track record of performance of our interface solutions, including their ease of use, reliability, and cost-effectiveness as well as their timely design, production, and delivery schedules. Our pointing stick solutions, including our proprietary TouchStyk, now enable us to address the approximate 16% of the notebook computer market that uses solely a pointing stick rather than a touch pad as the user interface as well as to address the growing trend toward dual pointing interfaces. Our ability to supply OEMs with both TouchPads and TouchStyks enhances our market position since we can provide OEMs with the following advantages:

- single source supplier that eliminates compatibility issues;
- cost-effective and simplified OEM integration;
- simplified product line to address both markets;
- end user flexibility since one notebook can address both user preferences; and
- modular approach allowing OEMs to utilize our TouchPad, our TouchStyk, or a combination of both interfaces.

In the interface markets for iAppliances and other electronic devices, we intend to compete primarily based on the advantages of our capacitive, inductive, and neural pattern recognition technologies. We believe our technologies offer significant benefits in terms of size, power consumption, durability, light transmissivity, resolution, ease of use, and reliability when compared to other technologies. While these markets are just beginning to emerge, and we do not know what the competitive factors will ultimately be, we believe we are positioned to compete aggressively for this business based on our proven track record, our marquee global customer base, and our reputation for design innovation in the notebook market. However, some of our competitors, particularly in the iAppliance and electronic device markets, have greater market recognition, large customer bases, and substantially greater financial, technical, marketing, distribution, and other resources than we possess that afford them competitive advantages. As a result, they may be able to introduce new product solutions and respond to customer requirements more quickly than we can. In addition, new competitors, alliances among competitors, or alliances among competitors and OEMs may emerge and allow competitors to rapidly acquire significant market share. Furthermore, our competitors may in the future develop technologies that more effectively address the interface needs of the notebook market and other markets.

Our sales, profitability, and success depend on our ability to compete with other suppliers of interface solutions. Our competitive position could be adversely affected if one or more of our current OEMs reduce their orders or if we are unable to develop customers for our interface solutions in other markets.

Employees

As of June 30, 2003, we employed a total of 176 persons, including 29 in finance, administration, and operations, 36 in sales and marketing, and 111 in research and development. Of these employees, 129 were located in the United States, 24 in the United Kingdom, 20 in Taiwan, and three in Japan, not including employees from our recent acquisition of NSM Technology. Some of our employees also spend time in our satellite offices in Hong Kong, China, and Thailand. We also have an additional 13 employees in Hong Kong, as a result of our acquisition of NSM Technology, which closed on June 26, 2003. We consider our relationship with our employees to be good, and none of our employees are represented by a union in collective bargaining with us.

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

Executive Officers

The following table sets forth certain information regarding our executive officers:

Name	Age	Position
Francis F. Lee	51	President, Chief Executive Officer, and Director
Donald E. Kirby	55	Senior Vice President and General Manager PC Products
Russell J. Knittel	53	Senior Vice President, Chief Financial Officer, Chief Administrative Officer, Secretary, and Treasurer
Shawn P. Day, Ph.D.	37	Vice President of Research and Development
David T. McKinnon	56	Vice President of System Silicon
Thomas D. Spade	37	Vice President of Worldwide Sales
William T. Stacy, Ph.D.	61	Vice President of Operations
Jon R. Stone	52	Vice President of Corporate Development
Clark Foy	39	Vice President of Marketing

Francis F. Lee has served as a director and the President and Chief Executive Officer of our company since December 1998. He was a consultant from August 1998 to November 1998. From May 1995 until July 1998, Mr. Lee served as General Manager of NSM, a Hong Kong-based joint venture between National Semiconductor Corporation and S. Megga. Mr. Lee held a variety of executive positions for National Semiconductor from 1988 until August 1995. These positions included Vice President of Communication and Computing Group, Vice President of Quality and Reliability, Director of Standard Logic Business Unit, and various other operations and engineering management positions. Mr. Lee holds a Bachelor of Science degree, with honors, in electrical engineering from the University of California at Davis.

Donald E. Kirby has been Senior Vice President and General Manager PC Products of our company since November 2001. He served as the General Manager PC Products and Vice President of Operations of our company from August 1999 until October 2001. From September 1997 to July 1999, Mr. Kirby served as Vice President of Technology Infrastructure and Core Technology Group of National Semiconductor; from January 1997 to August 1997, he served as Director of Strategic Technology Group of National Semiconductor; and from October 1995 to December 1996, he served as Director of Operations/ Co-GM, LAN Division of National Semiconductor. Mr. Kirby holds a patent for a Micro-controller ROM Emulator.

Russell J. Knittel has been Senior Vice President, Chief Financial Officer, Chief Administrative Officer, Secretary, and Treasurer of our company since November 2001. He served as the Vice President of Administration and Finance, Chief Financial Officer, and Secretary of our company from April 2000 until October 2001. Mr. Knittel served as Vice President and Chief Financial Officer of Probe Technology Corporation from May 1999 to March 2000. He was a consultant from January 1999 until April 1999. Mr. Knittel was Vice President and Chief Financial Officer at Starlight Networks from November 1994 to December 1998. Mr. Knittel holds a Bachelor of Arts degree in accounting from California State University at Fullerton and a Masters of Business Administration from San Jose State University.

Shawn P. Day, Ph.D. has been the Vice President of Research and Development of our company since June 1998. He served as the Director of Software Development of our company from November 1996 until May 1998 and as principal software engineer from August 1995 until October 1996. Mr. Day holds a Bachelor of Science degree and a Doctorate, both in electrical engineering, from the University of British Columbia in Vancouver, Canada.

David T. McKinnon has been the Vice President of System Silicon of our company since September 2001. From May 2000 until September 2001, Mr. McKinnon served as a consultant to start-up companies in the networking IC sector. From April 1998 until April 2000, Mr. McKinnon served as Vice President of Networking Business for Level One Communications. From December 1995 until April 1998, Mr. McKinnon served as the Chief Operating Officer/ Chief Technical Officer of the Japan Business Group of National Semiconductor. Mr. McKinnon holds a Bachelor of Science degree with Honors in Electrical and Electronic Engineering and a Masters in Science, Digital Techniques in Communications & Control from Heriot-Watt University in Edinburgh, Scotland.

Thomas D. Spade has been the Vice President of Worldwide Sales of our company since July 1999. From May 1998 until June 1999, he served as our Director of Sales. From May 1996 until April 1998, Mr. Spade was the Director of International Sales for Alliance Semiconductor. Mr. Spade previously has held additional sales and management positions at Alliance Semiconductor, Anthem Electronics, Arrow Electronics, and Andersen Consulting. Mr. Spade holds a Bachelor of Arts degree in economics and management from Albion College.

William T. Stacy, Ph.D. has been the Vice President of Operations of our company since October 2001. From August 1992 to June 2001, Mr. Stacy held a number of business management positions in the Data Management and Analog Groups of National Semiconductor. Most recently, from April 1999 until June 2001, he was Vice President of the Wireless Division. Prior to joining National, he held a series of operational and business management positions at Philips Semiconductors. He started his career in Philips Research Laboratories in Eindhoven, where he worked on magnetic and semiconducting device structures. Mr. Stacy holds a Bachelor of Science degree in physics and mathematics from Oregon State University and a Masters and Ph.D. degree in physics from the University of Illinois.

Jon R. Stone has been Vice President of Corporate Development of our company since January 2003. Immediately prior to joining our company, Mr. Stone was an independent strategic advisor and investment banker to emerging growth companies. From 1984 to 1994, Mr. Stone was with the Sprout Group, then the venture capital affiliate of Donaldson Lufkin Jenrette (now Credit Suisse First Boston), serving as a general partner from 1987 to 1994. Previously, Mr. Stone served in various management positions with the Telxon Corporation (which was acquired by Symbol Technologies), General Foods Corporation, and Warner Communications. Mr. Stone holds a Bachelor of Arts degree in history and economics from Brandeis University, a Masters of Business Administration in Finance and Accounting from Columbia University, and a Masters degree in Religious Studies from Stanford University.

Clark Foy has been Vice President of Marketing of our company since March 2003. Mr. Foy was the Vice President of Product Marketing for the Optical Storage Group of Oak Technology, Inc. from January 2002 to February 2003. Mr. Foy served as Vice President of Marketing at Gadzoox Networks, a provider of networking infrastructure products from June 2000 to January 2002. Mr. Foy has also held various management positions at Quantum Corporation and Compaq Computer Corporation. Mr. Foy holds a Bachelor’s Degree in Business Administration from Miami University, and a Masters of Management from Northwestern University’s Kellogg Graduate School of Management.

RISK FACTORS

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

We currently depend on TouchPad and TouchStyk products, and the notebook computer market, for our revenue, and a downturn in this product or market could have a more disproportionate impact on our revenue than if we were more diversified.

Historically, we derived substantially all of our revenue from the sale of our TouchPad and TouchStyk products for notebook computers. While our long-term objective is to derive revenue from multiple interface solutions for both the notebook computer market and the iAppliance and other electronic device markets, we anticipate that sales of our TouchPads and TouchStyks for notebooks will continue to represent the most substantial portion of our revenue, in the near term. The PC market as a whole has experienced a slowdown in growth. A continuing or accelerating softening in the demand in the notebook portion of the PC market or the level of our participation in that market would cause our business, financial condition, and results of operations to suffer more than they would have if we offered a more diversified line of products.

Our emerging interface business for iAppliances and other electronic devices may not be successful.

Our emerging interface business for iAppliances and other electronic devices faces many uncertainties. Our inability to address these uncertainties successfully and to become a leading supplier of interfaces to these markets would result in a slower growth rate than we currently anticipate. We do not know whether our user interface solutions for these markets will gain market acceptance or will ever result in a substantial portion of our revenue on a consistent basis. The failure to succeed in these markets would result in no return on the substantial investments we have made to date and plan to make in the future to penetrate these markets.

Various target markets for our interfaces in these markets, such as those for PDAs, smart phones, MP3 players, smart handheld devices, Web terminals, Internet appliances, and interactive games and toys, are uncertain, may develop slower than anticipated, or could utilize competing technologies. The market for certain of these products depends in part upon the development and deployment of wireless and other technologies, which may or may not address the needs of users of these new products.

Our ability to generate significant revenue from the iAppliance and other electronic device markets will depend on various factors, including the following:

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

Many manufacturers of these products have well-established relationships with competitive suppliers. Penetrating these markets will require us to offer better performance alternatives to existing solutions at competitive costs. We do not have any significant backlog of orders for our interface solutions to be incorporated in products in these markets. The revenue and income potential from these markets is unproven. The failure of any of these target markets to develop as we expect, or our failure to penetrate these markets, will impede our anticipated sales growth and could result in substantially reduced earnings from those we anticipate. These markets accounted for approximately 7% of our revenue in fiscal 2003, up from 2% in fiscal 2002. We cannot predict the size or growth rate of these markets or the market share we will achieve in these markets in the future.

If our emerging Spiral solutions are not commercially accepted, our revenue growth will be negatively impacted.

Our emerging Spiral solutions have no established track record. The failure to incorporate this technology successfully into our customers' products as the interface of choice would adversely affect our revenue growth. To succeed, we must help potential customers recognize the performance advantages of our solutions. The ability to produce these new products in sufficient quantities and the revenue and income potential of our new solutions are unproven.

Our historical financial information is based on sales of interface solutions to the notebook computer market and may not be indicative of our future performance in other markets.

Our historical financial information primarily reflects the sale of interface solutions for notebook computers. While we expect sales of our interface solutions for notebook computers to continue to generate a substantial percentage of our revenue, we expect to derive an increasing percentage of our revenue from sales of our product solutions for additional markets, including iAppliances and other electronic devices. We do not have an operating history in these markets upon which you can evaluate our prospects, which may make it difficult to predict our actual results in future periods. Actual results of our future operations may differ materially from our anticipated results.

The products of our customers may not achieve market acceptance, particularly in the case of iAppliances and other electronic devices, and our sales will decline if sales of those products do not develop or decline.

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

Our customer base historically has consisted primarily of major U.S.-based OEMs that sell notebook computers worldwide. During fiscal 2002, we began to ship products to many of the Japan-based OEMs. Competitive advances by Japan-based OEMs, which do not utilize our interface solutions broadly in their product offerings, at the expense of our U.S.-based OEM customers could result in lost sales opportunities for our customers. Any significant slowdown in the demand for our customers' products or the failure in the marketplace of new products of our customers would adversely affect the demand for our interface solutions and our future sales would decline.

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

Because our success depends on the widespread market acceptance of our customers' products, we must continue to maintain our relationships with the leading notebook computer OEMs. In addition, we must identify areas of significant growth potential in other markets, establish relationships with OEMs in those markets, and assist those OEMs in developing products that use our interface technologies. Our failure to identify potential growth opportunities, particularly in new markets, or establish and maintain relationships with OEMs in those markets, would prevent our business from growing in those markets.

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

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

In fiscal 2003, three customers provided an aggregate of 30% of our sales, and the loss of sales to any of those companies could harm our business, financial condition, and results of operations.

Sales to three companies that provide manufacturing services for major notebook computer OEMs accounted for an aggregate of 30% of our net revenue during the fiscal year ended June 30, 2003, and two companies accounted for an aggregate of 28% of our net revenue for the fiscal year ended June 30, 2002. These companies are Quanta and Nypro in fiscal 2002 and Inventec, Shanghai Yi Hsin, and Foxconn in fiscal 2003. Additionally, receivables from Inventec, Shanghai Yi Hsin, and Foxconn comprised a total of 41% of our accounts receivable at June 30, 2003.

These contract manufacturers serve our OEM customers. Any material delay, cancellation, or reduction of orders from any one or more of these contract manufacturers or the OEMs they serve could harm our business, financial condition, and results of operations. The adverse effect would be more substantial if our other customers in the notebook computer industry do not increase their orders or if we are unsuccessful in generating orders for interface solutions in other markets, including iAppliances and other electronic devices, from existing or new customers. Many of these contract manufacturers sell to the same OEMs, and therefore our concentration with certain OEMs may be higher than with any individual contract manufacturer. Concentration in our customer base may make fluctuations in revenue and earnings more severe and make business planning more difficult.

Our revenue may decline if customers for which we are sole source providers seek alternative sources of supply.

We serve as the sole source provider for some of our customers. Those customers may choose to reduce their dependence on us by seeking second sources of supply, which could reduce our revenue. To remain a sole source provider, we must continue to demonstrate to our customers that we have adequate alternate sources for components, that we maintain adequate alternatives for production, and that we can deliver high value added products on a timely basis.

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

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

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

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

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

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

From time to time, materials and components used in our product solutions or in other aspects of our customers’ products have been subject to allocation because of shortages of these materials and components. During portions of fiscal 2000 and 2001, limited manufacturing capacity for ASICs resulted in significant cost increases of our ASICs. Similar shortages in the future could cause delayed shipments, customer dissatisfaction, and lower revenue.

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

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

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

Our customers do not provide us with firm, long-term volume purchase commitments. As a result, customers can cancel purchase commitments or reduce or delay orders at any time. The cancellation, delay, or reduction of customer commitments could result in reduced revenue, excess inventory, and unabsorbed overhead. Substantially all of our sales to date have been in the notebook computer market, and we expect an increasing portion of our sales will be in the iAppliance and other electronics devices markets. All of these markets are subject to severe competitive pressures, rapid technological change, and product obsolescence, which increase our inventory and overhead risks, resulting in increased costs.

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

We serve intensely competitive markets that are characterized by price erosion, rapid technological change, and competition from major domestic and international companies. This intense competition could result in pricing pressures, lower sales, reduced margins, and lower market share. Any movement away from high-quality, custom designed, feature rich interface solutions to lower priced alternatives would adversely affect our business. Some of our competitors, particularly in the markets for iAppliances and other electronic devices, have greater market recognition, larger customer bases, and substantially greater financial, technical, marketing, distribution, and other resources than we possess and that afford them competitive advantages. As a result, they may be able to devote greater resources to the promotion and sale of products, to negotiate lower prices on raw materials and components, to deliver competitive products at lower prices, and to introduce new product solutions and respond to customer requirements more quickly than we can. Our competitive position could suffer if one or more of our customers decide to design and manufacture their own interfaces, to contract with our competitors, or to use alternative technologies.

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

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

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

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

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

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

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

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

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

The nature of our business requires us to make continuing investments for new technologies.

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

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

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

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

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

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

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

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

Our manufacturing and assembly operations are conducted in China, Thailand, Hong Kong, and Taiwan by manufacturing contractors, and we have other operations in Hong Kong, Japan, Taiwan and the United Kingdom. These international operations expose us to various economic, political, and other risks that could adversely affect our operations and operating results, including the following:

- difficulties and costs of staffing and managing a multi-national organization;
- unexpected changes in regulatory requirements;
- differing labor regulations;
- potentially adverse tax consequences;

- tariffs and duties and other trade barrier restrictions;
- possible employee turnover or labor unrest;
- greater difficulty in collecting accounts receivable;
- the burdens and costs of compliance with a variety of foreign laws;
- potentially reduced protection for intellectual property rights; and
- political or economic instability in certain parts of the world.

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

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

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

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

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

We transact business predominantly in U.S. dollars and bill and collect our sales in U.S. dollars. A weakening of the dollar could cause our overseas vendors to require renegotiation of the prices we pay for their goods and services. In the future, customers may make payments in non-U.S. currencies. In addition, a portion of our costs, such as payroll, rent, and indirect operating costs, are denominated in non-U.S. currencies, including British pounds, Hong Kong dollars, Japanese Yen, and Taiwan dollars.

Fluctuations in foreign currency exchange rates could affect our cost of goods and operating margins and could result in exchange losses. In addition, currency devaluation can result in a loss to us if we hold deposits of that currency. Hedging foreign currencies can be difficult, especially if the currency is not freely traded. We cannot predict the impact of future exchange rate fluctuations on our operating results.

A majority of our outsourced operations are located in Taiwan, Hong Kong, and China, increasing the risk that a natural disaster, labor strike, war, or political unrest in those countries would disrupt our operations.

A majority of our outsourced operations are located in Taiwan, Hong Kong, and China. Events out of our control, such as earthquakes, fires, floods, or other natural disasters or political unrest, war, labor strikes, or work stoppages, in these countries would disrupt our operations. The risk of earthquakes in Taiwan is significant because of its proximity to major earthquake fault lines. An earthquake, such as the one that occurred in Taiwan in September 1999, could cause significant delays in shipments of our product solutions until we are able to shift our outsourced operations. In addition, there is currently significant political tension between Taiwan and China, which could lead to hostilities. If any of these events occur, we may not be able to obtain alternative capacity. Failure to secure alternative capacity could cause a delay in the shipment of our product solutions, which would cause our revenue to fluctuate or decline.

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

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

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

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

- the cyclicality of the markets we serve;
- the timing and size of orders;
- the volume of orders relative to our capacity;
- product introductions and market acceptance of new products or new generations of products;
- evolution in the life cycles of our customers' products;
- timing of expenses in anticipation of future orders;
- changes in product mix, including the percentage of dual pointing and single pointing products shipped;
- availability of manufacturing and assembly services;
- changes in cost and availability of labor and components;
- timely delivery of product solutions to customers;
- pricing and availability of competitive products;
- pressures on gross margins;
- the absolute and relative levels of corporate enterprise and consumer notebook purchases; and
- changes in economic conditions.

Accordingly, you should not rely on period-to-period comparisons as an indicator of our future performance. Fluctuations in our operating results may result in a decline in the price of our stock.

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

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

- successfully hire, train, retain, and motivate additional employees;
- enhance our operational, financial, and management systems; and
- expand our production capacity.

As we expand and diversify our product and customer base, we may be required to increase our overhead and selling expenses. We also may be required to increase staffing and other expenditures, including expenses in order to meet the anticipated demand of our customers. Our customers, however, do not commit to firm production schedules for more than a short time in advance. Any increase in expenses in anticipation of future orders that do not materialize would adversely affect our profitability. Our customers also may require rapid increases in design and production services that place an excessive short-term burden on our resources and the resources of our third-party manufacturers. If we cannot manage our growth effectively, our business and results of operations could suffer.

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

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

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

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

Patents may not issue from the patent applications that we have filed or may file. Our issued patents may be challenged, invalidated, or circumvented, and claims of our patents may not be of sufficient scope or strength, or issued in the proper geographic regions, to provide meaningful protection or any commercial advantage. We have not applied for, and do not have, any copyright registration on our technologies or products. We have applied to register certain of our trademarks in the United States and other countries. There can be no assurances that we will obtain registrations of principle or other trademarks in key markets. Failure to obtain registrations could compromise our ability to protect fully our trademarks and brands and could increase the risk of challenge from third parties to our use of our trademarks and brands.

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

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

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

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

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

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

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

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

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

We develop complex products in an evolving marketplace. Despite testing by us and our customers, defects may be found in existing or new products. In fiscal 2001, a manufacturing error of one of our manufacturing subcontractors was discovered. Although the error was promptly discovered without significant interruption of supply and the manufacturing subcontractor rectified the problem at its own cost, any such manufacturing errors or product defects could result in a delay in recognition or loss of revenue, loss of market share, or failure to achieve market acceptance. Additionally, these defects could result in financial or other damages to our customers; cause us to incur significant warranty, support, and repair costs; and divert the attention of our engineering personnel from our product development efforts. In such circumstances, our customers could also seek and obtain damages from us for their losses. A product liability claim brought against us, even if unsuccessful, would likely be time-consuming and costly to defend. The occurrence of these problems would likely harm our business.

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

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

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

We expect to review opportunities to acquire other businesses and technologies that would complement our current interface solutions, expand the breadth of our markets, enhance our technical capabilities, or otherwise offer growth opportunities. While we have no current agreements or negotiations underway, we may acquire businesses, products, or technologies in the future. If we make any future acquisitions, we could issue stock that would dilute existing stockholders' percentage ownership, incur substantial debt, or assume contingent liabilities. Our experience in acquiring other businesses and technologies is limited. Potential acquisitions also involve numerous risks, including the following:

- problems assimilating the purchased operations, technologies, or products;
- unanticipated costs associated with the acquisition;
- diversion of management's attention from our core businesses;
- adverse effects on existing business relationships with suppliers and customers;
- risks associated with entering markets in which we have little or no prior experience; and
- potential loss of key employees of purchased organizations.

We cannot assure you that we would be successful in overcoming problems encountered in connection with any acquisitions, and our inability to do so could disrupt our operations and adversely affect our business.

The PC and electronics industries are cyclical and may result in fluctuations in our operating results and stock price.

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

Legislation affecting the markets in which we compete could adversely affect our ability to implement our iAppliance strategy.

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

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

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

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

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

The revenue growth and profitability of our business depends significantly on the overall demand in the notebook computer market and in the iAppliance and other electronic device markets. Softening demand in these markets caused by ongoing economic uncertainty may result in decreased revenue or earnings levels or growth rates. The U.S. economy has been weak recently and market conditions continue to be challenging, which has resulted in individuals and companies delaying or reducing expenditures. Further delays or reductions in spending could have a material adverse effect on demand for our products, and consequently on our business, financial condition, results of operations, prospects, and stock price.

The market price of our common stock may be volatile.

The trading price of our common stock could be subject to wide fluctuations in response to various factors, including the following:

- variations in our quarterly results;
- announcements of technological innovations by us or by our competitors;
- introductions of new products or new pricing policies by us or by our competitors;
- acquisitions or strategic alliances by us or by our competitors;
- recruitment or departure of key personnel;
- the gain or loss of significant orders;
- the gain or loss of significant customers;
- changes in the estimates of our operating performance or changes in recommendations by any securities analysts that follow our stock; and
- market conditions in our industry, the industries of our customers, and the economy as a whole.

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

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

Our certificate of incorporation and the Delaware General Corporation Law contain provisions that may have the effect of making more difficult or delaying attempts by others to obtain control of our company, even when these attempts may be in the best interests of our stockholders. Our certificate of incorporation also authorizes our board of directors, without stockholder approval, to issue one or more series of preferred stock, which could have voting and conversion rights that adversely affect or dilute the voting power of the holders of common stock. Delaware law also imposes conditions on certain business combination transactions with "interested stockholders."

Our stockholders' rights plan may adversely affect existing stockholders.

Our Stockholders' Rights Plan may have the effect of deterring, delaying, or preventing a change in control that might otherwise be in the best interests of our stockholders. In general, stock purchase rights issued under the Plan become exercisable when a person or group acquires 15% or more of our common stock or a tender offer or exchange offer of 15% or more of our common stock is announced or commenced. After any such event, our other stockholders may purchase additional shares of our common stock at 50% of the then-current market price. The rights will cause substantial dilution to a person or group that attempts to acquire us on terms not approved by our board of directors. The rights should not interfere with any merger or other business combination approved by our board of directors since the rights may be redeemed by us at $0.01 per stock purchase right at any time before any person or group acquires 15% or more of our outstanding common stock. The rights expire in August 2012.

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

All of the 23,835,877 shares outstanding as of June 30, 2003 are eligible for resale in the public markets. Of these shares, 1,603,623 shares are eligible for resale in the public markets subject to compliance with the volume and manner of sale rules of Rule 144 or 701 under the Securities Act of 1933, as amended; 56,192 shares are eligible for resale in the public markets by nonaffiliates subject to manner of sale rules under Rule 701; and 22,213,562 shares are eligible for resale in the public markets either as unrestricted shares or pursuant to Rule 144(k). In general, under Rule 144 as currently in effect, any person (or persons whose shares are aggregated for purposes of Rule 144) who beneficially owns restricted securities with respect to which at least one year has elapsed since the later of the date the shares were acquired from us, or from an affiliate of ours, is entitled to sell within any three-month period a number of shares that does not exceed the greater of 1% of the then outstanding shares of our common stock and the average weekly trading volume in common stock during the four calendar weeks preceding such sale. Sales under Rule 144 also are subject to certain manner-of-sale provisions and notice requirements and to the availability of current public information about us. Rule 701, as currently in effect, permits our employees, officers, directors, and consultants who purchase shares pursuant to a written compensatory plan or contract to resell these shares in reliance upon Rule 144, but without compliance with specific restrictions. Rule 701 provides that affiliates may sell their Rule 701 shares under Rule 144 without complying with the holding period requirement and that non-affiliates may sell their shares in reliance on Rule 144 without complying with the holding period, public information, volume limitation, or notice provisions of Rule 144. A person who is not an affiliate, who has not been an affiliate within three months prior to sale, and who beneficially owns restricted securities with respect to which at least two years have elapsed since the later of the date the shares were acquired from us, or from an affiliate of ours, is entitled to sell such shares under Rule 144(k) without regard to any of the volume limitations or other requirements described above. Sales of substantial amounts of common stock in the public market could adversely affect prevailing market prices.

We have registered for offer and sale the shares of common stock that are reserved for issuance pursuant to our outstanding stock option plans and available for issuance pursuant to the employee stock purchase plan. Shares issued after the effective date of such registration statements upon the exercise of stock options or pursuant to the employee stock purchase plan generally will be eligible for sale in the public market, except that affiliates will continue to be subject to volume limitations and other requirements of Rule 144. The issuance of such shares could depress the market price of our common stock.

ITEM 2. PROPERTIES

Our principal executive offices as well as our principal research, development, sales, marketing, and administrative functions are located in a 34,000 square foot leased facility in San Jose, California. The lease extends through January 2005 and provides for an average monthly rental payment of $54,000. We believe this facility will be adequate to meet our needs for at least the next 18 months. Our European headquarters are located in Cambridge, United Kingdom, where we lease approximately 5,600 square feet. We also maintain a 5,000 square foot office in Taiwan, a 1,000 square foot office in Japan, and have satellite sales and support offices in Hong Kong, China, and Thailand. As a result of our June 2003 acquisition of NSM Technology, we added an office in Hong Kong where we lease approximately 4,000 square feet.

ITEM 3. LEGAL PROCEEDINGS

We currently are not involved in any legal proceeding that we believe would have a material adverse effect on our business or financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information on Common Stock

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

	High	Low
Year ended June 30, 2002:		
Third quarter	$20.75	$12.45
Fourth quarter	$20.38	$ 7.51
Year ended June 30, 2003:		
First quarter	$ 8.74	$ 3.52
Second quarter	$ 9.08	$ 3.13
Third quarter	$ 8.60	$ 5.75
Fourth quarter	$13.96	$ 6.55
Year ended June 30, 2004:		
First quarter (through September 5, 2003)	$14.90	$ 9.23

On September 5, 2003, the closing sales price of our common stock on the Nasdaq National Market was $12.08 per share.

Stockholders

As of September 5, 2003, 2003, there were 297 holders of record of our common stock.

Dividends

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

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

Initial Public Offering

On February 1, 2002, we completed an initial public offering of 5,000,000 shares of common stock, resulting in net proceeds, after the underwriters' discount and offering expenses, of approximately $49.2 million. The underwriters purchased an additional 750,000 shares of common stock from certain selling stockholders from which we did not receive any proceeds.

Our initial public offering of common stock was effected through a Registration Statement on Form S-1 (File No. 333-56026) that was declared effective by the Securities and Exchange Commission on January 28, 2002. A total of 5,750,000 shares of our common stock were registered and sold in this offering. Of these shares, 5,000,000 shares were registered and sold on our behalf and 750,000 shares were registered and sold on behalf of certain selling stockholders. All 5,750,000 shares were sold at an initial public offering price of $11.00 per share, for an aggregate offering price of $55 million on our behalf and $8.25 million on behalf of the selling stockholders.

The shares were sold through a syndicate of underwriters managed by Bear, Stearns & Co. Inc., SG Cowen Securities Corporation, and SoundView Technology Corporation.

We paid to the underwriters underwriting discounts and commissions totaling $3.8 million in connection with the offering and the selling stockholders paid underwriting discounts and commissions totaling $577,500. In addition, we incurred additional expenses of approximately $2.0 million in connection with the offering, which when added to the underwriting discounts and commissions paid by us, amounts to total estimated expenses of approximately $5.8 million. Thus, the net offering proceeds to us, after deducting underwriting discounts and commissions and offering expenses, were approximately $49.2 million. No offering expenses were paid directly or indirectly to any of our directors or officers (or their associates) or persons owning ten percent (10%) or more of any class of our equity securities or to any other affiliates.

We intend to use the net proceeds from our initial public offering for the expansion of sales and marketing activities, for strategic relationships and acquisitions, and for working capital and general corporate purposes, including continued enhancement of our research and development and engineering capabilities. Pending these uses, we have invested the net proceeds of this offering in government-backed securities and investment-grade fixed income instruments. We cannot predict whether the proceeds will be invested to yield a favorable return.

The amounts that we actually expend for these purposes will vary significantly depending on a number of factors, including future revenue growth and the amount of cash that we generate from operations. As a result, we have broad discretion over the allocation of the net proceeds of the offering.

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ITEM 6. SELECTED FINANCIAL DATA

	Years Ended June 30,				
	1999	2000	2001*	2002	2003
	(in thousands, except for share and per share data)				
Consolidated Statements of Operations Data:					
Net revenue	$ 29,842	$ 43,447	$ 73,698	$ 100,201	$ 100,701
Cost of revenue(1)	17,824	25,652	50,811	59,016	58,417
Gross margin	12,018	17,795	22,887	41,185	42,284
Operating expenses:					
Research and development(1)	4,851	8,386	11,590	16,594	19,837
Selling, general, and administrative(1)	5,534	7,407	9,106	9,873	10,733
Acquired in-process research and development	—	855	—	—	—
Amortization of goodwill and other acquired intangible assets	—	605	784	134	40
Amortization of deferred stock compensation	—	82	597	453	516
Total operating expenses	10,385	17,335	22,077	27,054	31,126
Operating income	1,633	460	810	14,131	11,158
Interest income, net	334	365	180	325	904
Income before income taxes and equity losses	1,967	825	990	14,456	12,062
Provision for income taxes	40	120	180	5,056	4,344
Equity in losses of an affiliated company	—	(2,712)	—	—	—
Net income (loss)	$ 1,927	$ (2,007)	$ 810	$ 9,400	$ 7,718
Net income (loss) per share:					
Basic	$ 0.46	$ (0.38)	$ 0.13	$ 0.70	$ 0.33
Diluted	$ 0.12	$ (0.38)	$ 0.04	$ 0.42	$ 0.31
Shares used in computing net income (loss) per share:					
Basic	4,147,159	5,222,738	6,133,866	13,523,443	23,472,526
Diluted	15,897,146	5,222,738	19,879,491	22,544,461	25,131,864

* Fiscal year ended June 30, 2001 consisted of 53 weeks.

(1) Cost of revenue excludes $23,000, $28,000, and $28,000 of amortization of deferred stock compensation for the years ended June 30, 2001, 2002, and, 2003, respectively. Research and development expense excludes $162,000, $167,000, and $159,000 of amortization of deferred stock compensation for the years ended June 30, 2001, 2002, and, 2003, respectively. Selling, general, and administrative expense excludes $82,000, $412,000, $258,000, and $329,000 of amortization of deferred stock compensation for the years ended June 30, 2000, 2001, 2002, and 2003, respectively. These amounts have been aggregated and reflected as “Amortization of deferred stock compensation.”

	June 30,				
	1999	2000	2001	2002	2003
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$11,711	$ 6,507	$ 3,766	$45,491	$ 41,697
Restricted cash	—	—	—	—	240
Working capital	13,057	10,695	12,974	73,318	83,815
Total assets	18,051	20,661	27,157	90,381	104,508
Long-term debt, capital leases, and equipment financing obligations, less current portion	1,850	1,700	1,829	1,759	1,528

Total stockholders’ equity	11,757	11,538	13,754	74,003	86,264

Amounts for the year ended June 30, 2000 include the results of operations of Synaptics (UK) Limited (formerly Absolute Sensors Limited) from the date of acquisition in October 1999.

We calculated basic net income per share and basic and diluted net loss per share by dividing the net income (loss) for the period by the weighted average number of shares outstanding during the period, less weighted shares subject to repurchase. Diluted net income per common share also includes the effect of potentially dilutive securities, including stock options, warrants, and convertible preferred stock, when dilutive.

Our fiscal year ends on the last Saturday in June. For ease of presentation in this report, however, all fiscal years have been shown as ending on June 30. Fiscal year 2001 consisted of 53 weeks. Each of the other years presented consisted of 52 weeks.

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

FORWARD-LOOKING STATEMENTS AND FACTORS THAT MAY AFFECT RESULTS

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

Overview

We are a leading worldwide developer and supplier of custom-designed user interface solutions that enable people to interact more easily and intuitively with a wide variety of mobile computing and communications devices. From our inception in 1986 through 1994, we were a development stage company, which focused on developing and refining our pattern recognition and capacitive sensing technologies, and generated revenue by providing contract engineering and design services. In fiscal 1996, we began shipping our proprietary TouchPad and are now the world's leading supplier of interface solutions to the notebook computer market. We estimate our market share to be approximately 54% for all notebook computer interfaces for fiscal 2003. We believe our market share results from the combination of our customer focus, the strength of our intellectual property, and our engineering know-how, which allow us to design products that meet the demanding design specifications of OEMs.

In April 2000, we began shipping our initial dual pointing solution, which included third-party products, that enables notebook OEMs to offer end users the combination of both a touch pad and a pointing stick. In January 2001, we achieved our first design win incorporating our proprietary pointing stick solution, TouchStyk, into a dual pointing application for use in a notebook computer and began shipping them in volume in the December 2001 quarter. With the introduction of our TouchStyk, we now offer OEMs the choice of a touch pad, a pointing stick, or a combination of both of our proprietary interface solutions for dual pointing applications.

We have experienced significant demand for our dual pointing solutions, which results in higher revenue because we are able to sell two interface solutions for each notebook computer. Our initial dual pointing solutions contained a significant percentage of third-party products, which we either resell or license. As a consequence, the gross margin on our dual pointing revenue was initially well below the gross margin we experience from the sale of our proprietary interface solutions and had a significant negative impact on our gross margin in fiscal 2001. The combination of the full implementation of our cost-improvement programs for our dual pointing solutions containing key third-party products, which began in the second half of fiscal 2001, together with our new proprietary dual pointing solutions, which began shipping in December 2001, improved our gross margin in fiscal 2002 compared to our gross margin in fiscal 2001.

We recognize revenue upon shipment of our products and when title and risk of loss has passed to our customers. Our revenue increased from $29.8 million in fiscal 1999 to $100.7 million in fiscal 2003, a compound annual growth rate of approximately 36%. Through fiscal 2000, we derived all of our product revenue from the notebook computer market. We began to generate revenue from other markets in fiscal 2001, and in fiscal 2003, revenue from other markets grew to approximately 7% of our revenue.

While we have been awarded design wins by many of the Japanese OEMs of notebook computers, which are currently ordering and receiving products from us, our largest customers are the major U.S.-based OEMs that sell notebook computers worldwide. Adverse conditions in the notebook computer market or a competitive shift from U.S. to Japanese OEMs could have a material adverse effect on our business, financial condition, results of operations, and prospects. We work closely with our customers to design interface solutions to meet their specific requirements and provide both pre-sale custom-design services and post-sale support. During the design phase, we typically do not have any commitment from our customers to pay for our non-recurring engineering costs should the customer decide not to introduce that specific product or choose not to incorporate our interface solution in its products. We believe our focus on customer service and support has allowed us to develop strong customer relationships in the PC market, which we plan to expand in the future, and has provided us with the experience necessary to develop strong customer relationships in the new markets we intend to penetrate.

In June 2003 we acquired NSM Technology Limited (NSM), a Hong Kong company. The acquisition of NSM provides us with a highly skilled and experienced work force to expand our global presence and infrastructure to support customers in the Asia Pacific region. Many of our customers are migrating their manufacturing operations from Taiwan to China, and our OEM customers are beginning to set-up design centers in that region. With our expanded global presence, where we now have offices in Taiwan and Hong Kong, we are better positioned to provide local sales, operations, and engineering support services to our existing customers, as well as potential new customers, within the Asia Pacific region.

Our manufacturing operations are based on a variable cost model in which we outsource all of our production requirements, eliminating the need for significant capital expenditures and allowing us to minimize our investment in inventories. This approach requires us to work closely with our manufacturing subcontractors to ensure adequate production capacity to meet our forecasted volume requirements. We provide our manufacturing subcontractors with six-month rolling forecasts and issue purchase orders based on our anticipated requirements for the next 90 days. We do not have any long-term supply contracts with any of our manufacturing subcontractors. Currently, we primarily use one third-party manufacturer to provide our proprietary capacitive based ASICs, and in certain cases, we also rely on a single source or a limited number of suppliers to provide other key components of our products. Our cost of sales includes all costs associated with the production of our products, including materials, manufacturing, and assembly costs paid to third-party manufacturers and related overhead costs associated with our manufacturing operations personnel. Additionally, all warranty costs and any inventory provisions or write-downs are expensed as cost of sales.

Our gross margin generally reflects the combination of the added value we bring to our customers' products in meeting their custom design requirements and our ongoing cost-improvement programs. In fiscal 2001, we experienced significant pressure on our gross margin, resulting from the increasing revenue mix of dual pointing solutions containing significant third-party products. We have been successful in implementing cost reductions that have significantly improved the gross margins of these dual pointing solutions. These cost-improvement programs include reducing component costs and implementing design and process improvements. In addition, our gross margin has been positively impacted by shipments of our proprietary dual pointing solutions, which began shipping in volume in our December 2001 quarter. In the future, we plan to introduce additional new products, which may initially negatively impact our gross margin, as was the case with our dual pointing solutions.

Our research and development expenses include expenses related to product development, engineering, materials costs, patent expenses, and the costs incurred to design interface solutions for customers prior to the customers' 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 a leadership position in our existing markets and to develop new technologies for new markets. In fiscal 2000, we significantly increased our research and development expenses as a result of our October 1999 acquisition of Absolute Sensors Limited, or ASL, a company located in Cambridge, United Kingdom, which has been developing inductive pensensing technology applicable to new markets we intend to address. Also related to this acquisition was the write-off in fiscal 2000 of acquired in-process research and development of $855,000 and the amortization of goodwill and other intangible assets of approximately $502,000. The amortization of goodwill and other intangible assets related to this acquisition totaled $753,000 in fiscal 2001. As the result of the July 1, 2001 adoption of Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" (FAS 142), we ceased amortization of goodwill and accordingly only recorded amortization of other intangible assets of $118,000 and $40,000 in fiscal 2002 and fiscal 2003, respectively. As of June 30, 2003, the other intangible assets were fully amortized and the carrying value of the remaining goodwill will be reviewed at least annually for impairment.

Selling, general, and administrative expenses include expenses related to sales, marketing, and administrative personnel; internal sales and outside sales representatives' commissions; market research and consulting; and other marketing and sales activities. These expenses have generally increased, reflecting increased staffing, commission expense associated with higher revenue levels, and additional management personnel in anticipation of our continued growth in our existing markets and penetration into new markets. In October 2001, we began replacing outside sales representatives with inside sales personnel for certain customer accounts to facilitate a closer working relationship with those customers. We continue to utilize both inside sales personnel and outside sales representatives and agents. In fiscal 2001 and 2002, we recorded amortization of goodwill and other intangible assets related to the June 1999 acquisition of the employees of a former Taiwanese sales agent of $31,000 and $16,000, respectively. These assets were fully amortized as of June 30, 2002.

In connection with the grant of stock options to our employees, we recorded deferred stock compensation of approximately $2.2 million through fiscal 2001, representing the difference between the deemed fair value of our common stock for financial reporting purposes and the exercise price of these options at the date of grant. Deferred stock compensation is presented as a reduction of stockholders' equity and is amortized on a straight-line basis over the vesting period. Options granted are typically subject to a four-year vesting period. Restricted stock acquired through the exercise of unvested stock options is subject to our right to repurchase the unvested stock at the price paid, which right to repurchase lapses over the vesting period. We also recorded $1.0 million of deferred compensation related to options granted to consultants through fiscal 2003. We are amortizing the deferred stock compensation over the vesting periods of the applicable options and the repurchase periods for the restricted stock. We recorded amortization of deferred stock compensation of approximately $597,000, $453,000, and $516,000 in fiscal 2001, 2002, and 2003, respectively. We will incur stock compensation expense in future periods as a result of the amortization of the remaining $1.2 million of deferred stock compensation relating to previously granted stock options.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States 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, inventory, warranty, income taxes, intangible assets, and contingencies. We base our estimates on historical experience and on various other assumptions that are believed 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. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements. Actual results may differ from these estimates under different assumptions or conditions.

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 and determinable, and collectibility is reasonably assured. We accrue for estimated sales returns and other allowances at the time we recognize revenue, which is typically upon shipment, based on historical experience. Contract revenue for research and development is recorded as earned based on the performance requirements of the contract. Non-refundable contract fees for which no further performance obligations exist, and for which there is no continuing involvement by us, are recognized on the earlier of when the payments are received or when collection is assured.

Allowance for Doubtful Accounts

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of customers to meet their financial obligations. On an ongoing basis, we evaluate the collectibility of accounts receivable based on a combination of factors. In circumstances in which we are aware of a specific customer's potential inability to meet its financial obligation, we record a specific reserve of the bad debt against amounts due. In addition, we must make judgments and estimates of the collectibility of accounts receivables based on historical bad debt, customers' credit worthiness, current economic trends, recent changes in customer payment trends, and deterioration in the customers' operating results or financial position. If circumstances change adversely, additional allowances may be required.

Inventory

We state our inventories at the lower of cost or market. Our assessment of the ultimate realization of inventories is based on our projections of future demand and market conditions. Any sudden decline in demand, rapid product improvements, or technological changes, or any of them, can cause us to have excess or obsolete inventories. On an ongoing basis, we review for estimated obsolete or unmarketable inventories and write down our inventories to their net realizable value based upon our forecasts of future demand and market conditions. If actual market conditions are less favorable than our forecasts, additional inventory reserves may be required. Our estimates are influenced by the following considerations: sudden decline in demand due to economic downturn, rapid product improvements and technological changes, and termination by our OEM customers of any product offerings incorporating our product solutions.

Warranty

We provide for the estimated cost of product warranties at the time revenue is recognized. While we engage in extensive product quality programs and processes, including actively monitoring and evaluating the quality of our component suppliers, our warranty obligation is affected by product failure rates, materials usage, and service delivery costs incurred in correcting a product failure. We exercise judgment in determining the estimates underlying our accrued warranty liability. The actual results with regard to warranty expenditures could have a material adverse effect on our operating results if the actual rate of unit failure is greater than what we used in estimating the accrued warranty liability.

Income Taxes

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

Results of Operations

The following table presents our historical operating results for the periods indicated as a percentage of revenue.

	Years Ended June 30,		
	2001	2002	2003
Net revenue	100.0%	100.0%	100.0%
Cost of revenue	68.9%	58.9%	58.0%
Gross margin	31.1%	41.1%	42.0%
Operating expenses:			
Research and development	15.7%	16.6%	19.7%
Selling, general, and administrative	12.4%	9.8%	10.7%
Amortization of goodwill and other acquired intangible assets	1.1%	0.1%	0.0%
Amortization of deferred stock compensation	0.8%	0.5%	0.5%
Total operating expenses	30.0%	27.0%	30.9%
Operating income	1.1%	14.1%	11.1%
Interest income	0.5%	0.5%	1.1%
Interest expense	(0.3)%	(0.2)%	(0.2)%
Income before income taxes	1.3%	14.4%	12.0%
Provision for income taxes	0.2%	5.0%	4.3%
Net income	1.1%	9.4%	7.7%

Fiscal year ended June 30, 2003 compared to fiscal year ended June 30, 2002

Net Revenue. Revenue for the year ended June 30, 2003 was $100.7 million, which was essentially flat with the $100.2 million of revenue for the year ended June 30, 2002. Unit shipments increased approximately 20% year over year but were mostly offset by a change in product mix from dual to single pointing solutions, general competitive pricing pressure, and lower non-recurring engineering and patent license fees. While we experienced increases in revenue from our single pointing products and non-PC products, revenue from dual pointing products declined 18%. Revenue from our dual pointing applications was approximately 39% of our revenue for the year ended June 30, 2003 compared to 47% for the year ended June 30, 2002. Revenue growth was impacted by lower overall average selling prices resulting from both the mix change and competitive pricing pressure.

Gross Margin. Gross margin as a percentage of revenue was 42.0% for the year ended June 30, 2003 compared to 41.1% for the year ended June 30, 2002. The improvement in gross margin as a percentage of revenue resulted primarily from cost reductions, and changes in product mix, partially offset by general competitive pricing pressures. During fiscal 2003 our ongoing cost-improvement programs resulted in manufacturing efficiencies gained from design and process improvements and lower materials and assembly costs. Increased sales of our proprietary dual pointing solutions, which have higher gross margin than dual pointing solutions using third-party products, also contributed to the improvement in gross margin as a percentage of sales.

Research and Development Expenses. Research and development expenses increased 19.5% to $19.8 million, or 19.7% of revenue, for the year ended June 30, 2003 from $16.6 million, or 16.6% of revenue, for the year ended June 30, 2002. The major contributors to the increased spending were costs associated with our higher staffing levels, including compensation and facilities-related costs, higher product development activities, which included outside services, and material costs.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses for the year ended June 30, 2003 increased to $10.8 million, or 10.7% of revenue, from $9.9 million, or 9.8% of revenue, for the year ended June 30, 2002. The increase in spending resulted mainly from higher compensation costs associated with increased staffing levels, generally higher operating levels, and additional costs related to our status as a public reporting company, partially offset by lower commissions, primarily resulting from the replacement of outside sales representatives with inside sales personnel for certain customer accounts that we implemented in October 2001.

Amortization of Goodwill and Other Acquired Intangible Assets. Amortization of other intangible assets was related to our October 1999 acquisition of ASL, a company located in Cambridge, United Kingdom. For the year ended June 30, 2003, we recorded amortization of $40,000 compared to $134,000 for the year ended June 30, 2002. As of June 30, 2003, these other intangible assets were fully amortized.

Amortization of Deferred Stock Compensation. The year ended June 30, 2003 included amortization expense for deferred stock compensation of $516,000 compared to $453,000 for the year ended June 30, 2002. We expect to record amortization expense of $544,000 in fiscal 2004 with the remaining balance of $640,000 to be amortized through fiscal 2007.

Operating Income. We generated operating income of $11.2 million for the year ended June 30, 2003 compared to $14.1 million for the year ended June 30, 2002. The major contributors to the lower operating income were the increase in operating expenses, which primarily resulted from higher costs associated with our increased staffing levels, including higher compensation and facilities-related costs, higher research and development expenses related to increased product development activities, and additional costs related to our status as a public reporting company. The increase in operating expenses were partially offset by the improvement in gross margin percentage, which resulted from lower manufacturing costs related to improved manufacturing efficiencies from our ongoing design and process improvement programs and lower material costs, a favorable product mix within our dual pointing product line, lower sales commissions, and slightly higher revenue.

Net Interest Income. Net interest income was $904,000 for the year ended June 30, 2003 compared to $325,000 for the year ended June 30, 2002. The increase in net interest income reflects higher interest income from higher cash balances resulting primarily from the investment our initial public offering proceeds, cash flow from operations, and lower interest expense associated with equipment lease financing arrangements, partially offset by the impact of lower interest rates on invested cash.

Provision for Income Taxes. The provision for income taxes for the year ended June 30, 2003 was $4.3 million compared to $5.1 million for the year ended June 30, 2002, reflecting the lower pre-tax profit levels, partially offset by a slightly higher tax rate. The income tax provision represents the estimated federal and state taxes and the foreign taxes associated with our operations in the United Kingdom, Taiwan, and Japan. The effective tax rate for the year ended June 30, 2003 was approximately 36%, which is lower than the combined federal and state statutory rate primarily due to the benefit of research and development tax credits.

Fiscal year ended June 30, 2002 compared to fiscal year ended June 30, 2001

Net Revenue. Revenue for the year ended June 30, 2002 was $100.2 million compared to $73.7 million for the year June 30, 2001, a 36.0% increase. The increase in revenue was primarily attributable to an increase in unit shipments, higher revenue content per notebook from dual pointing solutions that include both a touch pad and a pointing stick, and non-recurring engineering and patent license fees of $1.1 million, partially offset by general competitive pricing pressure. Revenue from our dual pointing solutions represented approximately 47% of our revenue for the year ended June 30, 2002 compared to 41% for the year ended June 30, 2001.

Gross Margin. Gross margin as a percentage of revenue was 41.1% for the year ended June 30, 2002 compared to 31.1% for the year ended June 30, 2001. The improvement in gross margin as a percentage of revenue resulted from the implementation of cost-improvement programs, which reduced the cost of our dual pointing solutions through the combination of design and process improvements, lower outside assembly costs, generally lower costs for materials and electronic components, the introduction of our proprietary dual pointing solutions, and non-recurring engineering and patent license revenue in the amount of $1.1 million, partially offset by general competitive pricing pressure.

Research and Development Expenses. Research and development expenses increased 43.2% to $16.6 million, or 16.6% of revenue, for the year ended June 30, 2002 from $11.6 million, or 15.7% of revenue, for the year ended June 30, 2001. The major contributors to the increase in spending were higher compensation costs associated with increased staffing levels and higher product development related expenses, including outside services and materials costs.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses for the year ended June 30, 2002 increased to $9.9 million, or 9.8% of revenue, from $9.1 million, or 12.4% of revenue, for the year ended June 30, 2001. The increase in actual spending resulted from increased staffing, including additions to our inside sales force, increased expenses related to our higher operating levels, and costs incurred related to our filings with the Securities and Exchange Commission in connection with amendments to our initial public offering and periodic and quarterly filings, partially offset by lower sales commissions resulting from the replacement of outside sales representatives with inside sales personnel for certain customer accounts beginning in October 2001.

Amortization of Goodwill and Other Acquired Intangible Assets. The year ended June 30, 2001 reflected charges of $784,000 for the amortization of goodwill and other acquired intangible assets related to acquisitions. In connection with the adoption of Statement of Financial Accounting Standards No. 142 “Goodwill and Other Intangible Assets” on July 1, 2001, amortization of goodwill was terminated, which resulted in significantly lower amortization charges in the year ended June 30, 2002 compared to the year ended June 30, 2001. Amortization of other intangible assets continued in accordance with the previously determined useful economic lives, which resulted in total amortization charges of $134,000 in the year ended June 30, 2002. We assess the potential impairment of goodwill annually or whenever events or changes in circumstances indicate that their carrying value may not be recoverable.

Amortization of Deferred Stock Compensation. The year ended June 30, 2002 includes amortization expense for deferred stock compensation of $453,000 compared to $597,000 for the year ended June 30, 2001.

Operating Income. We generated operating income of $14.1 million for the year ended June 30, 2002 compared to $810,000 for the year ended June 30, 2001. The major contributors to the improvement in operating income included the increased revenue levels, the higher gross margin percentage resulting from the implementation of our cost-improvement programs for our dual pointing solutions, lower assembly costs, lower materials and electronic components costs, non-recurring engineering and patent license revenue, lower sales commissions related to the replacement of outside sales representatives with inside direct sales personnel, and lower amortization expense for goodwill and other acquired intangible assets. These factors were partially offset by higher compensation costs, resulting from our increased staffing levels, higher research and development project costs, and costs incurred related to our filings with the Securities and Exchange Commission in connection with amendments to our initial public offering and periodic and quarterly filings.

Net Interest Income. Net interest income was $325,000 for the year ended June 30, 2002 compared to $180,000 for the year ended June 30, 2001. The increase in net interest income primarily reflects the investment of the proceeds from our initial public offering, which closed on February 1, 2002, partially offset by the impact of lower interest rates on invested cash and higher interest expense associated with equipment lease financing arrangements.

Provision for Income Taxes. The provision for income taxes for the year ended June 30, 2002 was $5.1 million compared to $180,000 for the year ended June 30, 2001, reflecting the higher pre-tax profit levels. The income tax provision represents the estimated federal and state taxes and the foreign taxes associated with our operations in the United Kingdom and Taiwan. The effective tax rate for the year ended June 30, 2002 was approximately 35%, reflecting the benefit of research and development tax credits and a reduction in the valuation allowance, partially offset by nondeductible deferred compensation.

The effective tax rate for the year ended June 30, 2001 was 18% and was lower than the statutory rate of 35%, primarily due to the benefits of utilizing net operating loss carryforwards, which were fully utilized during fiscal 2001, and research and development tax credits. Tax benefits for fiscal 2001 were partially offset by nondeductible deferred compensation and goodwill amortization.

Quarterly Results of Operations

The following table sets forth our unaudited quarterly results of operations for the eight quarters in the period ended June 30, 2003. You should read the following table in conjunction with the financial statements and related notes contained elsewhere in this report. We have prepared this unaudited information on the same basis as our audited financial statements. This table includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results for the quarters presented. You should not draw any conclusions about our future results from the results of operations for any quarter.

	Three Months Ended							
	September 30, 2001	December 31, 2001	March 31, 2002	June 30, 2002	September 30, 2002	December 31, 2002	March 31, 2003	June 30, 2003
	(unaudited) (in thousands)							
Net revenue	$ 23,569	$ 26,402	$24,421	$25,809	$ 22,177	$ 24,199	$26,103	$28,222
Cost of revenue(1)	14,607	15,376	14,197	14,836	12,443	13,917	15,385	16,672
Gross margin	8,962	11,026	10,224	10,973	9,734	10,282	10,718	11,550
Operating expenses:								
Research and development(1)	3,691	4,117	4,072	4,714	5,323	4,812	4,942	4,760
Selling, general, and administrative(1)	2,674	2,426	2,351	2,422	2,604	2,621	2,715	2,793
Amortization of goodwill and other acquired intangible assets	13	62	29	30	30	10	—	—
Amortization of deferred stock compensation	121	121	121	90	110	133	137	136
Total operating expenses	6,499	6,726	6,573	7,256	8,067	7,576	7,794	7,689
Operating income	2,463	4,300	3,651	3,717	1,667	2,706	2,924	3,861
Interest and other income (expense), net	(31)	(1)	108	249	238	232	224	210
Income before income taxes	2,432	4,299	3,759	3,966	1,905	2,938	3,148	4,071
Provision for income taxes	845	1,497	1,321	1,393	705	1,093	1,079	1,467
Net income	$ 1,587	$ 2,802	$ 2,438	$ 2,573	$ 1,200	$ 1,845	$ 2,069	$ 2,604
Net income per share:								
Basic	$ 0.24	$ 0.42	$ 0.14	$ 0.11	$ 0.05	$ 0.08	$ 0.09	$ 0.11
Diluted	$ 0.08	$ 0.14	$ 0.10	$ 0.10	$ 0.05	$ 0.07	$ 0.08	$ 0.10
Shares used in compute net income per share:								
Basic	6,623	6,709	17,653	23,179	23,260	23,387	23,537	23,668
Diluted	20,362	20,376	24,422	25,957	24,840	25,083	25,125	25,902

(1) Excludes the amortization of deferred stock compensation as follows (unaudited) (in thousands):

	Three Months Ended							
	September 30, 2001	December 31, 2001	March 31, 2002	June 30, 2002	September 30, 2002	December 31, 2002	March 31, 2003	June 30, 2003
Cost of revenue	$ 7	$ 7	$ 7	$ 7	$ 7	$ 7	$ 7	$ 7
Research and development	49	49	49	20	39	45	38	37
Selling, general, and administrative	65	65	65	63	64	81	92	92
	$ 121	$ 121	$ 121	$ 90	$ 110	$ 133	$ 137	$ 136

Liquidity and Capital Resources

Our cash and cash equivalents and short-term investments were $77.3 million as of June 30, 2003 compared to $65.2 million as of June 30, 2002. In addition, we have $240,000 of restricted cash as of June 30, 2003, which represents amounts held in escrow for purchase price contingencies relating to the acquisition of NSM Technology.

During the year ended June 30, 2003, net cash generated from operating activities was $11.7 million, primarily reflecting our net income of $7.7 million adjusted for non-cash amounts for depreciation and amortization of acquired intangible assets and deferred stock compensation and a tax benefit from stock options totaling $2.6 million, and lower working capital of $1.4 million. During the year ended June 30, 2002, net cash generated from operating activities was $12.8 million, primarily reflecting our net income of $9.4 million adjusted for non-cash amounts for depreciation and amortization of acquired intangible assets and deferred stock compensation totaling $1.9 million, and lower working capital of $1.5 million. During fiscal 2001, operating activities used net cash of $2.3 million, primarily reflecting increased working capital of $5.6 million related to our higher operating levels, partially offset by non-cash adjustments for depreciation and amortization of goodwill, acquired intangible assets, and stock compensation of $2.5 million, and net income of $810,000.

Our investing activities typically relate to purchases of government-backed securities and investment-grade fixed income instruments and used cash of $18.4 million for the year ended June 30, 2003 compared to $20.9 million and $982,000 for the years ended June 30, 2002 and 2001, respectively. Cash used during fiscal 2003 consisted of purchases of $25.1 million of short-term investments, $1.3 million of capital assets, and $1.2 million for the acquisition of NSM Technology in Hong Kong, of which $240,000 is held as restricted cash, partially offset by cash generated from sales and maturities of short-term investments. Investing activities for the year ended June 30, 2002 related to purchases of $19.6 million of short-term investments and $1.3 million of capital assets. Investing activities for year ended June 30, 2001 related to purchases of capital assets, which totaled $982,000.

Financing activities for the year ended June 30, 2003 were primarily related to proceeds from common stock issued under our Employee Stock Purchase Plan and stock option plans and repayment of notes receivable from stockholders less payments made on capital lease and equipment financing obligations. Financing activities for the year ended June 30, 2002 were primarily related to the sale of 5.0 million shares of our common stock at $11.00 per share in our initial public offering, which closed on February 1, 2002. For the three years prior to our initial public offering, our financing activities generally related to the proceeds obtained from the financing of capital assets, offset by the related repayments under those transactions, plus the proceeds from the exercise of vested stock options. Net cash provided by financing activities for the years ended June 30, 2001, 2002, and 2003 was $536,000, $49.8 million, and $2.9 million, respectively.

Our principal sources of liquidity, as of June 30, 2003, consisted of $77.3 million in cash, cash equivalents, and short-term investments and a $4.2 million working capital line of credit with Silicon Valley Bank. The Silicon Valley Bank revolving line of credit extends to November 25, 2003 and has an interest rate equal to Silicon Valley Bank's prime lending rate. The long-term note payable to National Semiconductor represents limited-recourse debt that is secured solely by a portion of our preferred stockholdings in Foveon, Inc., in which National Semiconductor is also an investor. We do not anticipate making any payments under the limited-recourse loan with National Semiconductor, either prior to or at maturity, unless Foveon is participating in a liquidity event, such as an initial public offering of its equity securities or a merger, through which we would be able to receive amounts in excess of our $1.5 million long-term note payable plus accrued interest expense.

We believe our existing cash balances will be sufficient to meet our cash requirements at least through the next 12 months. Our future capital requirements will depend on many factors, including our rate of revenue growth, the timing and extent of spending to support product development efforts, 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 continuing market acceptance of our product solutions, and the amount and timing of our investments in, or acquisition of, other technologies or companies. We cannot assure you that additional equity or debt financing will be available to us on acceptable terms or at all.

Contractual Obligations and Commercial Commitments.

The following table sets forth a summary of our material contractual obligations and commercial commitments as of June 30. 2003:

	Payments due by period (in thousands)				
Contractual Obligations	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 Years
Note payable and interest	$2,686	$ —	$ —	$2,686	$ —
Building leases	2,635	1,082	1,312	241	—
Capital leases	266	266			
Inventory purchase obligations	202	202	—	—	—
Total	$5,789	$ 1,550	$1,312	$2,927	$ —

Off-Balance Sheet Arrangements

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

Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, Consolidation Of Variable Interest Entities. This Interpretation requires that if a business enterprise has a controlling financial interest in a variable interest entity, the assets, liabilities, and results of activities of the variable interest entity should be included in the consolidated financial statements of the business enterprise. This Interpretation is effective immediately for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of this Interpretation must be applied for the first interim or annual period beginning after June 15, 2003. We currently do not have any financial interest in variable interest entities. The adoption of this Interpretation did not have a material impact on our consolidated financial statements.

Effective prospectively for arrangements entered into in fiscal periods beginning after June 15, 2003, Emerging Issues Task Force (“EITF”) Issue 00-21, “Revenue Arrangements with Multiple Deliverables,” addresses the accounting by a vendor for contractual arrangements in which multiple revenue-generating activities will be performed by the vendor. In some situations, the different revenue-generating activities (deliverables) are sufficiently separable and there exists sufficient evidence of fair values to account separately for the different deliverables (that is, there are separate units of accounting). In other situations, some or all of the different deliverables are interrelated closely or there is not sufficient evidence of fair value to account separately for the different deliverables. EITF Issue 00-21 addresses when and, if so, how an arrangement involving multiple deliverables should be divided into separate units of accounting. The adoption of this Interpretation is not expected to have a material impact on our consolidated financial statements.

In April 2003, the Financial Accounting Standards Board issued SFAS No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities.” SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement will be effective in fiscal 2004 for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. Since we do not use derivative instruments or engage in hedging activities, the adoption of this statement is not expected to have a material impact on our consolidated financial statements.

In May 2003, the Financial Accounting Standards Board issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. Financial instruments that are within the scope of the statement, which previously were often classified as equity, must now be classified as liabilities. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise shall be effective at the beginning of the first interim period beginning after June 15, 2003. We do not expect the adoption of this statement to have a material impact on our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk

Our exposure to market risk for changes in interest rates relates primarily to our cash, cash equivalents, and short-term investments. Due to the conservative nature of our investment portfolio, which is predicated on capital preservation and consists primarily of government-backed securities and investment-grade instruments, we would not expect our operating results or cash flows to be significantly affected by changes in market interest rates. We do not use our investment portfolio for trading or other speculative purposes.

The table below presents principal amounts and related weighted average interest rates by year of maturity for our investment portfolio and debt obligations as of June 30, 2003 (in thousands):

Fiscal Year Ended June 30,	2004	2005	2006	2007	2008	Thereafter	Total	Fair Value
Assets								
Cash equivalents								
Variable rate amounts	$35,076	$ —	$—	$—	$ —	$ —	$35,076	$35,076
Average rate	1.3%	—	—	—	—	—	1.3%	
Short-term investments								
Variable rate amounts	$20,794	$14,695	$—	$—	$ —	$ —	$35,489	$35,589
Average rate	1.9%	1.3%	—	—	—	—	1.6%	
Liabilities								
Capital leases and equipment financing obligations								
Fixed rate amounts	$ 231	$ 28	$—	$—	$ —	$ —	$ 259	$ 259
Average rate	6.7%	5.8%	—	—	—	—	6.3%	
Note payable to related party								
Fixed rate amounts	$ —	$ —	$—	$—	$1,500	$ —	$ 1,500	$ 1,500
Average rate	—	—	—	—	6.0%	—	6.0%	

There have been no significant changes in the maturity dates and average interest rates for our investment portfolio and debt obligations subsequent to June 30, 2003.

Foreign currency exchange risk

All of our sales and our expenses, except those expenses related to our U.K. and Taiwan operations, are denominated in U.S. dollars. As a result, we have relatively little exposure to foreign currency exchange risks and foreign exchange losses have been immaterial to date. We do not currently enter into forward-exchange contracts to hedge exposure denominated in foreign currencies or any other derivative financial instruments for trading or speculative purposes. In the future, if we feel that our foreign exchange exposure has increased, we may consider entering into hedging transactions to help mitigate that risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to the financial statements, the reports thereon, and the notes thereto commencing at page F-1 of this report, which financial statements, report, and notes are incorporated herein by reference.

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

On March 25, 2003, we dismissed Ernst & Young LLP as our independent accountants. The audit reports of Ernst & Young LLP on our consolidated financial statements as of and for the years ended June 30, 2001 and 2002 did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles. Our Board of Directors and Audit Committee participated in and approved the decision to change independent accountants. In connection with the audit of our financial statements for the fiscal years ended June 30, 2001 and 2002 and in the subsequent interim period from June 30, 2002, through and including March 25, 2003, there were no disagreements with Ernst & Young LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope and procedure, which disagreements if not resolved to the satisfaction of Ernst & Young LLP would have caused them to make reference to the matter in their report. During the fiscal years ended June 30, 2001 and 2002 and the subsequent interim period from June 30, 2002, through and including March 25, 2003, there were no reportable events (as defined in Regulation S-K Item 304(a)(1)(v)). We requested a letter from Ernst & Young LLP stating whether or not it agreed with the above statements. A copy of such letter from Ernst & Young LLP dated March 27, 2003 was filed as Exhibit 16 to our Current Report on Form 8-K filed with the SEC on March 31, 2003.

We engaged KPMG LLP as our new independent accountants as of March 25, 2003. During the fiscal years ended June 30, 2001 and 2002 and the subsequent interim period from June 30, 2002, through and including March 25, 2003, we had not consulted with KPMG LLP regarding (1) the application of accounting principles to a specified transaction, either completed or proposed; (2) the type of audit opinion that might be rendered on our financial statements, and in no case was a written report provided to us nor was oral advice provided that we concluded was an important factor in reaching a decision as to an accounting, auditing, or financial reporting issue; or (3) any matter that was either the subject of a disagreement, as that term is defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions to Item 304 of Regulation S-K, or a reportable event, as that term is defined in Item 304(a)(1)(v) of Regulation S-K.

ITEM 9A. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of our disclosure controls and procedures, which included inquires made to certain other of our employees. Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have each concluded that our disclosure controls and procedures are effective and sufficient to ensure that we record, process, summarize, and report information required to be disclosed by us in our periodic reports filed under the Securities Exchange Act within the time periods specified by the Securities and Exchange Commission’s rules and forms.

During the last fiscal quarter covered by this report, there have not been any changes in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item relating to directors of our company is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934 for our 2003 Annual Meeting of Stockholders. The information required by this Item relating to our executive officers is included in Item 1, “Business – Executive Officers.”

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2003 Annual Meeting of Stockholders.

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

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2003 Annual Meeting of Stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2003 Annual Meeting of Stockholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2003 Annual Meeting of Stockholders.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Financial Statements and Financial Statement Schedules

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

(2) Financial Statement Schedules: Schedule II, Valuation and Qualifying Accounts is set forth on page S-1 of this report.

(b) Reports on Form 8-K

Report of Form 8-K dated April 24, 2003 furnishing Item 12 Results of Operations and Financial Condition disclosure.

(c) Exhibits

Exhibit Number	Exhibit
2	Agreement and Plan of Merger (1)
3.1	Certificate of Incorporation (1)
3.2	Bylaws (1)
4	Form of Common Stock Certificate (2)
10.1	1986 Incentive Stock Option Plan and form of grant agreement (3)
10.2	1986 Supplemental Stock Option Plan and form of grant agreement (3)
10.3(a)	1996 Stock Option Plan (3)
10.3(b)	Form of grant agreements for 1996 Stock Option Plan (2)
10.4	2000 U.K. Approved Sub-Plan to the 1996 Stock Option Plan and form of grant agreement (3)
10.5	2000 Nonstatutory Stock Option Plan and form of grant agreement (3)
10.6(a)	Amended and Restated 2001 Incentive Compensation Plan (4)
10.6(b)	Form of grant agreements for Amended and Restated 2001 Incentive Compensation Plan (4)
10.7(a)	Corrected Amended and Restated 2001 Employee Stock Purchase Plan (as amended through February 20, 2002) (2)
10.7(b)	2001 Employee Stock Purchase Sub-Plan for U.K. Employees (2)
10.8	401(k) Profit Sharing Plan (3)
10.9	Agreement dated as of October 13, 1999 by and among the registrant and the Principal Shareholders of Absolute Sensors Limited (3)
10.10	Lease dated as of September 17, 1999 by and between Silicon Valley Properties, LLC as Landlord and the registrant as Tenant (3)
10.11	Master Equipment Lease Agreement dated as of November 28, 2000 by and between KeyCorp Leasing, a Division of Key Corporate Capital Inc., and the registrant (1)
10.12	Subordinated Secured Non-Recourse Promissory Note dated August 12, 1997 executed by the registrant in favor of National Semiconductor Corporation (3)
10.13	Form of Stock Option Grant and Stock Option Agreement between the registrant and Federico Faggin (3)
10.14	Form of Stock Option Grant and Stock Option Agreement between the registrant and Francis F. Lee (3)
10.15	Form of Stock Option Grant and Stock Option Agreement between the registrant and Russell J. Knittel (3)
10.16	Loan and Security Agreement dated as of August 30, 2001 between Silicon Valley Bank and the registrant (3)

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Exhibit Number	Exhibit
10.17	Form of Indemnification Agreement entered into as of January 28, 2002 with the following directors and executive officers: Federico Faggin, Francis F. Lee, Donald E. Kirby, Russell J. Knittel, Shawn P. Day, Richard C. McCaskill, David T. McKinnon, Thomas D. Spade, William T. Stacy, Keith B. Geeslin, Richard L. Sanquini, and Joshua C. Goldman, and as of April 23, 2002 with W. Ronald Van Dell (1)
10.18	Severance Policy for Principal Executive Officers
10.19	Change of Control and Severance Agreement entered into by Francis F. Lee as of April 22, 2003
10.20	Form of Change of Control and Severance Agreement entered into by Donald E. Kirby and Russell J. Knittel as of April 22, 2003
21	List of Subsidiaries
23.1	Consent of Ernst & Young LLP, independent auditors
23.2	Consent of KPMG LLP, independent auditors
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Incorporated by reference to the registrant's Form 10-Q for the quarter ended December 29, 2001, as filed with the SEC on February 21, 2002.

(2) Incorporated by reference to the registrant's Form 10-K for the fiscal year ended June 30, 2002, as filed with the SEC on September 12, 2002.

(3) Incorporated by reference to the registrant's registration statement on Form S-1 (Registration No. 333-56026) as filed with the SEC January 22, 2002 and declared effective January 28, 2002.

(4) Incorporated by reference to the registrant's Form 10-Q for the quarter ended December 28, 2002, as filed with SEC on February 6, 2003.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SYNAPTICS INCORPORATED

Date: September 12, 2003

By: /s/ Francis F. Lee

Francis F. Lee
President and Chief Executive Officer

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

Signature	Title	Date
/s/ Francis F. Lee Francis F. Lee	President, Chief Executive Officer, and Director (Principal Executive Officer)	September 12, 2003
/s/ Russell J. Knittel Russell J. Knittel	Senior Vice President, Chief Financial Officer, Chief Administrative Officer, Secretary and Treasurer (Principal Financial and Accounting Officer)	September 12, 2003
/s/ Federico Faggin Federico Faggin	Chairman of the Board	September 12, 2003
/s/ Keith B. Geeslin Keith B. Geeslin	Director	September 12, 2003
/s/ Richard L. Sanquini Richard L. Sanquini	Director	September 12, 2003
/s/ W. Ronald Van Dell W. Ronald Van Dell	Director	September 12, 2003

INDEX TO FINANCIAL STATEMENTS

SYNAPTICS INCORPORATED AND SUBSIDIARIES

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Synaptics Incorporated:

We have audited the accompanying consolidated balance sheet of Synaptics Incorporated and subsidiaries (the Company) as of June 30, 2003, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for the year then ended. In connection with our audit of the financial statements, we also have audited the financial statement schedule as of and for the year ended June 30, 2003, listed in the Index at Item 15(a). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Synaptics Incorporated and subsidiaries as of June 30, 2003, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule as of and for the year ended June 30, 2003, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Mountain View, California
July 29, 2003

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Synaptics Incorporated

We have audited the accompanying consolidated balance sheet of Synaptics Incorporated as of June 30, 2002 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two years in the period ended June 30, 2002. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Synaptics Incorporated at June 30, 2002, and the consolidated results of its operations and its cash flows for each of the two years in the period ended June 30, 2002, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/S/ ERNST & YOUNG LLP

San Jose, California
July 26, 2002

SYNAPTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	June 30, 2002	June 30, 2003
ASSETS		
Current Assets:		
Cash and cash equivalents	$45,491	$ 41,697
Short-term investments	19,689	35,589
Restricted cash	—	240
Accounts receivable, net of allowances of $200 and $160 at June 30, 2002 and June 30, 2003, respectively	13,242	13,181
Inventories	5,867	6,428
Prepaid expenses and other current assets	2,964	2,637
Total current assets	87,253	99,772
Property and equipment, net	2,043	1,934
Goodwill	765	1,968
Other acquired intangible assets, net	40	—
Other assets	280	834
	$90,381	$104,508
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 5,867	$ 6,893
Accrued compensation	2,161	2,808
Accrued warranty	1,002	1,002
Income taxes payable	2,646	1,661
Other accrued liabilities	1,814	3,362
Capital leases and equipment financing obligations	445	231
Total current liabilities	13,935	15,957
Capital leases and equipment financing obligations, net of current portion	259	28
Note payable to a related party	1,500	1,500
Other liabilities	684	759
Commitments and contingencies		
Stockholders' equity:		
Preferred stock;		
$0.001 par value; 10,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock;		
$0.001 par value; 60,000,000 shares authorized; 23,182,757 and 23,835,877 shares issued and outstanding, respectively	23	24
Additional paid-in capital	75,013	78,761
Deferred stock compensation	(1,085)	(1,184)
Notes receivable from stockholders	(876)	(20)
Accumulated other comprehensive income	63	100
Retained earnings	865	8,583
Total stockholders' equity	74,003	86,264
	$90,381	$104,508

See notes to consolidated financial statements.

SYNAPTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share amounts)

	Years ended June 30,		
	2001	2002	2003
Net revenue	$ 73,698	$ 100,201	$ 100,701
Cost of revenue (1)	50,811	59,016	58,417
Gross margin	22,887	41,185	42,284
Operating expenses:			
Research and development (1)	11,590	16,594	19,837
Selling, general, and administrative (1)	9,106	9,873	10,733
Amortization of goodwill and other acquired intangible assets	784	134	40
Amortization of deferred stock compensation	597	453	516
Total operating expenses	22,077	27,054	31,126
Operating income	810	14,131	11,158
Interest income	363	522	1,059
Interest expense	(183)	(197)	(155)
Income before provision for income taxes	990	14,456	12,062
Provision for income taxes	180	5,056	4,344
Net income	$ 810	$ 9,400	$ 7,718
Net income per share:			
Basic	$ 0.13	$ 0.70	$ 0.33
Diluted	$ 0.04	$ 0.42	$ 0.31
Shares used in computing net income per share:			
Basic	6,133,866	13,523,443	23,472,526
Diluted	19,879,491	22,544,461	25,131,864

(1) Cost of revenue excludes $23,000, $28,000, and $28,000 of amortization of deferred stock compensation for the years ended June 30, 2001, 2002, and 2003, respectively. Research and development expense excludes $162,000, $167,000, and $159,000 of amortization of deferred stock compensation for the years ended June 30, 2001, 2002, and 2003, respectively. Selling, general, and administrative expenses exclude $412,000, $258,000, and $329,000 of amortization of deferred stock compensation for the years ended June 30, 2001, 2002, and 2003, respectively. These amounts have been aggregated and reflected as “Amortization of deferred stock compensation.”

See notes to consolidated financial statements.

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SYNAPTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(in thousands, except for share data)

	Convertible Preferred Stock		Common Stock		Additional
	Shares	Amount	Shares	Amount	Paid in Capital
Balance at June 30, 2000	8,170,207	$ 18,650	5,948,288	$ 3,004	$ —
Issuance of common stock for option exercises	—	—	653,561	880	—
Deferred stock compensation	—	—	—	2,108	—
Amortization of deferred stock compensation	—	—	—	—	—
Stock compensation in connection with modification of terms of stock options	—	—	—	202	—
Net income and comprehensive income	—	—	—	—	—
Balance at June 30, 2001	8,170,207	18,650	6,601,849	6,194	—
Components of comprehensive income:					
Net income	—	—	—	—	—
Change in net unrealized gain on available-for-sale investments, net of tax	—	—	—	—	—
Total comprehensive income					
Reincorporation in Delaware	—	—	—	(6,187)	6,187
Issuance of common stock in connection with initial public offering	—	—	5,000,475	5	49,242
Conversion of preferred stock into shares of common stock in connection with public offering	(8,170,207)	(18,650)	11,073,517	11	18,639
Issuance of common stock upon exercise of warrants	—	—	25,898	—	—
Issuance of common stock for option exercises	—	—	443,518	—	835
Amortization of deferred stock compensation, net of reversals	—	—	—	—	(218)
Tax benefit for nonqulaified stock option exercises	—	—	—	—	253
Repayment of notes receivable from stockholders	—	—	—	—	—
Issuance of common stock from escrow from acquisition of sales representative workforce	—	—	37,500	—	75
Balance at June 30, 2002	—	—	23,182,757	23	75,013
Components of comprehensive income:					
Net income	—	—	—	—	—
Change in net unrealized gain on available-for-sale investments, net of tax	—	—	—	—	—
Total comprehensive income					
Issuance of common stock from option exercises and stock purchase plan	—	—	653,120	1	2,499
Amortization of deferred stock compensation, net of reversals	—	—	—	—	(119)
Deferred stock compensation	—	—	—	—	734
Tax benefit for nonqulaified stock option exercises	—	—	—	—	634
Repayment of notes receivable from stockholders	—	—	—	—	—
Balance at June 30, 2003	—	$ —	23,835,877	$ 24	$78,761

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Deferred Stock Compensation	Notes Receivable From Stockholders	Accumulated Other Comprehensive Income	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
Balance at June 30, 2000	$ (138)	$ (633)	$ —	$ (9,345)	$ 11,538
Issuance of common stock for option exercises	—	(273)	—	—	607
Deferred stock compensation	(2,108)	—	—	—	—
Amortization of deferred stock compensation	597	—	—	—	597
Stock compensation in connection with modification of terms of stock options	—	—	—	—	202
Net income and comprehensive income	—	—	—	810	810
Balance at June 30, 2001	(1,649)	(906)	—	(8,535)	13,754
Components of comprehensive income:					
Net income	—	—	—	9,400	9,400
Change in net unrealized gain on available-for-sale investments, net of tax	—	—	63	—	63
Total comprehensive income					9,463
Reincorporation in Delaware	—	—	—	—	—
Issuance of common stock in connection with initial public offering	—	—	—	—	49,247
Conversion of preferred stock into shares of common stock in connection with public offering	—	—	—	—	—
Issuance of common stock upon exercise of warrants	—	—	—	—	—
Issuance of common stock for option exercises	—	—	—	—	835
Amortization of deferred stock compensation, net of reversals	564	—	—	—	346
Tax benefit for nonqulaified stock option exercises	—	—	—	—	253
Repayment of notes receivable from stockholders	—	30	—	—	30
Issuance of common stock from escrow from acquisition of sales representative workforce	—	—	—	—	75
Balance at June 30, 2002	(1,085)	(876)	63	865	74,003
Components of comprehensive income:					
Net income	—	—	—	7,718	7,718
Change in net unrealized gain on available-for-sale investments, net of tax	—	—	37	—	37
Total comprehensive income					7,755
Issuance of common stock from option exercises and stock purchase plan	—	—	—	—	2,500
Amortization of deferred stock compensation, net of reversals	635	—	—	—	516
Deferred stock compensation	(734)	—	—	—	—
Tax benefit for nonqulaified stock option exercises	—	—	—	—	634
Repayment of notes receivable from stockholders	—	856	—	—	856
Balance at June 30, 2003	$ (1,184)	$ (20)	$ 100	$ 8,583	$ 86,264

See notes to consolidated financial statements.

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

	Years Ended June 30,		
	2001	2002	2003
Cash flows from operating activities			
Net income	$ 810	$ 9,400	$ 7,718
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation of property and equipment	876	1,182	1,459
Amortization of goodwill and other acquired intangible assets	784	134	40
Amortization of deferred stock compensation	597	453	516
Tax benefit from stock options	—	253	634
Stock compensation in connection with modification of terms of stock options	202	(107)	—
Changes in operating assets and liabilities:			
Accounts receivable	(5,145)	(997)	61
Inventories	(3,698)	1,423	(561)
Prepaid expenses and other current assets	100	(968)	(286)
Deferred taxes	(400)	(1,345)	(88)
Other assets	(349)	191	188
Accounts payable	2,791	(1,422)	878
Accrued compensation	403	598	647
Accrued warranty	30	493	—
Income taxes payable	362	2,124	(985)
Other accrued liabilities	314	1,340	1,368
Other liabilities	28	88	75
Net cash provided by (used in) operating activities	(2,295)	12,840	11,664
Cash flows from investing activities			
Purchases of short-term investments	—	(19,626)	(25,058)
Proceeds from sales and maturities of short-term investments	—	—	9,195
Purchase of property and equipment	(982)	(1,287)	(1,306)
Increase in restricted cash	—	—	(240)
Cash paid in connection with the acquisition of NSM Technology Limited	—	—	(960)
Net cash used in investing activities	(982)	(20,913)	(18,369)
Cash flows from financing activities			
Payments on capital leases and equipment financing obligations	(570)	(622)	(445)
Proceeds from equipment financing	499	308	—
Proceeds from issuance of common stock upon initial public offering	—	49,247	—
Proceeds from issuance of common stock upon exercise of options and stock purchase plan	607	835	2,500
Repayment of notes receivable from stockholders	—	30	856
Net cash provided by financing activities	536	49,798	2,911
Increase (decrease) in cash and cash equivalents	(2,741)	41,725	(3,794)
Cash and cash equivalents at beginning of year	6,507	3,766	45,491
Cash and cash equivalents at end of year	$ 3,766	$ 45,491	$ 41,697

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

	Years Ended June 30,		
	2001	2002	2003
Supplemental disclosures of cash flow information			
Cash paid for interest	$ 76	$ 84	$ 77
Cash paid for taxes	—	3,988	4,783
Retirement of equipment and related accumulated depreciation for property and equipment no longer in service	1,655	—	656
Issuance of common stock to employees for notes receivable	273	—	—
Reversal of stock compensation	—	(111)	(136)
Equipment acquired under capital leases	423	143	—
Issuance of common stock from escrow related to the acquisition of sales representative work force	—	75	—

See notes to consolidated financial statements

SYNAPTICS INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation

We were founded in March 1986. We develop intuitive user interface solutions for intelligent electronic devices and products. We started shipping our current core product, the TouchPad, in 1995. The TouchPad is incorporated into a number of notebook computer product lines manufactured by original equipment manufacturers (OEMs) and contract manufacturers and sold throughout the world.

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 ends on the last Saturday in June. For ease of presentation, the accompanying financial statements have been shown as ending on June 30, 2001, 2002, and 2003. The years ended June 30, 2002 and 2003 consisted of 52 weeks, and the year ended June 30, 2001 consisted of 53 weeks.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents and Short-term Investments

Cash equivalents consist of highly liquid investments with original maturities of three months or less. Short-term investments consist of marketable securities and are classified as securities “available for sale” under Statement of Financial Accounting Standard No. 115, Accounting for Certain Investments in Debt and Equity Securities. Such securities are reported at fair value, with unrealized gains and losses, net of taxes, excluded from earnings and shown separately as a component of accumulated other comprehensive income within stockholders’ equity. Interest earned on marketable securities is included in interest income. Realized gains and losses on the sale of marketable securities are determined using the specific identification method.

The following is a summary of investments in marketable securities and cash equivalents at June 30, 2002 and 2003:

As of June 30, 2002:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(in thousands)		
Money Market	$18,194	$ —	$ —	$18,194
Municipal securities	42,608	73	9	42,672
Total available-for-sale securities	$60,802	$ 73	9	$60,866

As of June 30, 2003:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(in thousands)		
Money Market	$24,064	$ —	$ —	$24,064
Municipal securities	46,501	109	9	46,601
Total available-for-sale securities	$70,565	$ 109	9	$70,665

The following is a summary of amortized costs and estimated fair values of debt securities by contractual maturity at June 30, 2002 and 2003 (in thousands):

	2002		2003	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Less than one year	$46,690	$46,704	$55,870	$55,980
Due in 1 - 2 years	14,112	14,162	14,695	14,685
Total	$60,802	$60,866	$70,565	$70,665

Fair Values of Financial Instruments

The fair values of our cash equivalents, short-term investments, accounts receivable, accounts payable, and accrued liabilities approximate their carrying values due to the short-term nature of those instruments. The fair value of the note payable to related party also approximates its carrying value due to the associated interest rate of 6% and related maturity date in 2007.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents, short-term investments, and trade account receivable. The company has an investment policy that limits investments to U.S. government treasuries and agency issues, taxable securities, and municipal issued securities with a minimum rating of A1 (Moody’s) or P1 (Standard and Poors) or equivalent. We sell our products primarily to contract manufacturers that provide manufacturing services to notebook computer OEMs. Credit is extended based on an evaluation of a customer’s financial condition, and we generally do not require collateral. To date, credit losses have been within our expectations, and we believe that an adequate allowance for doubtful accounts has been provided. At June 30, 2002 and 2003, the following customers accounted for more than 10% of our accounts receivable balance:

	Year Ended June 30,	
	2002	2003
Customer A	14%	2%
Customer B	14%	9%
Customer C	11%	3%
Customer D	8%	26%

Other Concentrations

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

Revenue Recognition

We recognize revenue from product sales when there is persuasive evidence that an arrangement exists, delivery has occurred and title has transferred, the price is fixed and determinable, and collectibility is reasonably assured. We accrue for estimated sales returns and other allowances at the time we recognize revenue, which is typically upon shipment, based on historical experience. Contract revenue for research and development is recorded as earned based on the performance requirements of the contract. Non-refundable contract fees for which no further performance obligations exist, and there is no continuing involvement by us, are recognized on the earlier of when the payments are received or when collection is assured.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of customers to meet their financial obligations. On an on-going basis, we evaluate the collectability of accounts receivable based on a combination of factors. In circumstances in which we are aware of a specific customer's inability to meet its financial obligation to us, we record a specific reserve of the bad debt against amounts due. In addition, we must make judgments and estimates of the collectability of accounts receivable based on historical bad debt write-offs, customers' credit worthiness, current economic trends, recent changes in customer payment trends, and deterioration in our customers' operating results or financial position.

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):

	June 30, 2002	June 30, 2003
Raw materials and work-in-process	$5,690	$6,062
Finished goods	177	366
	$5,867	$6,428

Write-downs to reduce the carrying value of obsolete, slow moving, and non-usable inventory to net realizable value are charged to cost of revenues.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets of three years. Depreciation expense includes the amortization of assets recorded under capital leases. Leasehold improvements and assets recorded under capital leases are amortized over the shorter of the lease term or the useful life of the asset. Depreciation expense for years ending 2001, 2002, and 2003 was $876,000, $1,182,000, and $1,459,000, respectively. During the years ended June 30, 2001 and 2003, we retired fully depreciated equipment and furniture at an original cost of $1,655,000 and $656,000, respectively. No such equipment and furniture was retired during the year ended 2002.

Foreign Currency Translation

Our functional and reporting currency is the U.S. dollar. Our monetary assets and liabilities not denominated in the functional currency are translated into U.S. dollar equivalents at the rate of exchange in effect on the balance sheet date. Non-monetary balance sheet accounts are measured and recorded at the historical rate in effect at the date of translation. Revenue and expenses are translated at the weighted average exchange rate in the month that the transaction occurred. Remeasurement of monetary assets and liabilities that are not denominated in the functional currency are included currently in operating results. Translation gains (losses) included in operating results for the years ended June 30, 2001, 2002, and 2003 totaled $29,000, $25,000, and ($14,000), respectively. To date, we have not undertaken hedging transactions related to foreign currency exposure.

Goodwill and Other Acquired Intangible Assets

Goodwill represents the excess purchase price of net tangible and intangible assets acquired in business combinations over their estimated fair value. Other acquired intangible assets primarily represent core technology and patent rights. In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets (FAS 141 and FAS 142, respectively). FAS 141 supercedes APB Opinion No. 16, Business Combinations, and eliminates the pooling-of-interest method of accounting for business combinations. FAS 141 also changes the criteria for recognizing intangible assets apart from goodwill and states the following criteria should be considered in determining the recognition of intangible assets: (1) the intangible asset arises from contractual or other rights, or (2) the intangible asset is separable or divisible from the acquired entity and capable of being sold, transferred, licensed, returned, or exchanged. We adopted FAS 141 effective July 1, 2001, the results of which are reflected in the accompanying consolidated financial statements effective for the year ended June 30, 2002. Adoption of FAS 141 on July 1, 2001 did not have any impact on our financial position or historical results of operations. However, certain intangible assets that did not meet the new criteria for recognition as a separate class of intangible assets have been reclassified as part of goodwill for all periods presented.

FAS 142 supersedes APB Opinion No. 17, Intangible Assets, and requires goodwill and other intangible assets that have an indefinite useful life to no longer be amortized; however, these assets must be reviewed at least annually for impairment. We had previously amortized goodwill over its estimated useful life of three years; however, pursuant to the adoption of FAS 142 on July 1, 2001, goodwill is no longer amortized. We continue to amortize separately identifiable intangible assets with finite useful lives over periods ranging from two to three years, and the adoption of FAS 142 had no impact on such identifiable intangible assets. We completed our annual impairment test of goodwill and concluded that there was no impairment.

Impairment of Long-Lived Assets

In accordance with Statement of Financial Accounting Standard No. 144 ("FAS 144"), we evaluate long-lived assets such as property, plant and equipment and purchased intangible assets subject to amortization for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and would no longer be depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheet.

Ownership Interest in Affiliated Company

We have an investment that consists of an ownership interest in the form of convertible preferred stock in a privately held development-stage company. We account for the investment under the equity method in accordance with APB 18 and the Emerging Issues Task Force ("EITF") topic D-68 and issues No. 98-13 and No. 99-10. We consider our ownership of preferred stock and advances made to the affiliated company in determining the amount of equity losses to be recognized (see Note 3).

Segment Information

We have adopted the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 131, "Disclosure About Segments of an Enterprise and Related Information" (FAS 131). We operate in one segment: the development, marketing, and sale of intuitive user interface solutions for intelligent electronic devices and products.

Stock-Based Compensation

As permitted by FAS 123, "Accounting for Stock-Based Compensation," we apply APB No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for our stock option plans and, accordingly, we do not recognize compensation expense for stock option grants to employees with an exercise price equal to the fair market value of the shares at the date of grant. We provide additional pro forma disclosures as required under FAS 123.

Options granted to consultants and other non-employees are accounted for at fair value determined by using the Black-Scholes method in accordance with EITF Consensus No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or In Conjunction with Selling, Goods or Services." These options are subject to periodic revaluation over their vesting term, if any. The assumptions used to value stock-based awards to consultants and non-employees are similar to those used for employees, except that a volatility of 80% was used.

We have elected to follow APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for stock options. Had compensation expense for stock options been determined based on the fair value of the option at date of grant consistent with the provisions of FAS 123, "Accounting for Stock-Based Compensation," net income and earnings per share would have been reduced to the pro forma amounts indicated below (in thousands, except per share amounts):

	Years Ended June 30,		
	2001	**2002**	**2003**
Net income as reported	$ 810	$ 9,400	$ 7,718
Add: Stock-based compensation expense included in reported net income, net of related tax effects	483	294	330
Deduct: Stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(840)	(1,414)	(2,790)
Proforma net income	$ 453	$ 8,280	$ 5,258
Net income per share — Basic:			
As reported	$0.13	$ 0.70	$ 0.33
Proforma	$0.07	$ 0.61	$ 0.22
Net income per share — Diluted:			
As reported	$0.04	$ 0.42	$ 0.31
Proforma	$0.02	$ 0.37	$ 0.21

The fair value of each award granted was estimated at the date of grant using the Black-Scholes option- pricing model, assuming no expected dividends and the following weighted average assumptions:

	Stock Option Plan			Employee Stock Purchase Plan		
	Years Ended June 30,			Years Ended June 30,		
	2001	2002	2003	2001	2002	2003
Expected volatility	N/A	54.5%	82.2%	N/A	54.5%	69.8%
Expected life of options in years	5	5	5	N/A	0.4	0.4
Risk-free interest rate	5.7%	4.4%	2.6%	N/A	1.7%	1.4%
Expected dividend yield	—	—	—	N/A	—	—

Warranty

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 revenue is recognized. Factors that affect our warranty liability include historical and anticipated rates of warranty claims, material usage, and service delivery costs. Warranty costs incurred have not been material in recent years. However, we assess the adequacy of our warranty obligations periodically and adjust the accrued warranty liability on the basis of our estimates.

Changes in our warranty liability for the years ended June 30, 2002 and 2003 are as follows (in thousands):

	2002	2003
Beginning balance	$ 509	$1,002
Warranties issued during the period	502	201
Claims made during the period	(9)	(201)
Ending balance	$1,002	$1,002

Advertising Expense

All advertising costs are expensed as incurred. The advertising costs for the years ended June 30, 2001, 2002, and 2003 were $322,000, $190,000, and $169,000, respectively.

Comprehensive Income (Loss)

Comprehensive income includes all changes in stockholders' equity during a period, except those resulting from investments by owners and distributions to owners. Other comprehensive income (loss) comprises unrealized gains and losses on available-for-sale securities, which have been insignificant through June 30, 2001.

Income Taxes

Income taxes are accounted for by the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Research and Development

Costs to develop our products, which include the costs incurred to design interface solutions for customers prior to the customers incorporating those solutions into their products, are expensed as incurred in accordance with FAS 2 “Accounting for Research and Development Costs,” which establishes accounting and reporting standards for research and development costs.

We account for software development costs in accordance with FAS 86, “Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed,” which requires capitalization of certain software development costs once technological feasibility for the software component is established, and research and development activities for the hardware component are completed. Based on our development process, the time period between the establishment of technological feasibility and completion of the hardware component and the release of the product is short and capitalization of internal development costs has not been material to date.

Net Income (Loss) Per Share

Basic and diluted net income (loss) per share amounts are presented in conformity with the FAS 128, “Earning Per Share,” for all periods presented. In accordance with FAS 128, basic net income per share has been computed using the weighted-average number of shares of common stock outstanding during each period, less shares subject to repurchase. Diluted net income per share has been computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period, using the treasury stock method for stock options. Under the treasury stock method the effect of stock options outstanding are not included in the computation of diluted net income per share for periods when their effect is anti-dilutive.

Accounting for Asset Retirement Obligations

In fiscal 2003, we adopted Statement of Financial Accounting Standards FAS 143 (FAS 143”), Accounting for Asset Retirement Obligations, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. FAS 143 applies to legal obligations associated with the retirement of long-lived assets. FAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of the fair value of the liability can be made. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. The adoption of FAS 143 in fiscal 2003 did not have a material impact on our consolidated financial statements.

Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46, “Consolidation of Variable Interest Entities,” (“the Interpretation”), which addresses consolidation by a business of variable interest entities in which it is the primary beneficiary. The Interpretation is effective immediately for certain disclosure requirements and variable interest entities created after January 31, 2003, and in fiscal 2004 for all other variable interest entities. We have reviewed the provisions of the Interpretation and have determined that we have no variable interest entities, consequently there was no impact on our consolidated financial statements.

Effective prospectively for arrangements entered into in fiscal periods beginning after June 15, 2003, Emerging Issues Task Force (“EITF”) Issue 00-21, “Revenue Arrangements with Multiple Deliverables,” addresses the accounting by a vendor for contractual arrangements in which multiple revenue-generating activities will be performed by the vendor. In some situations, the different revenue-generating activities (deliverables) are sufficiently separable and there exists sufficient evidence of fair values to account separately for the different deliverables (that is, there are separate units of accounting). In other situations, some or all of the different deliverables are interrelated closely or there is not sufficient evidence of fair value to account separately for the different deliverables. EITF Issue 00-21 address when and, if so, how an arrangement involving multiple deliverables should be divided into separate units of accounting. We do not expect the adoption of EITF Issue 00-21 to have a material impact on our consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149, “Amendments of Statement 133 on Derivative Instruments and Hedging Activities,” which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133. This statement is effective for contracts entered into or modified after June 30, 2003, with certain exceptions, and for hedging relationships designated after June 30, 2003. Since we do not use derivative instruments or engage in hedging activities, we do not expect the adoption of SFAS No. 149 to have a material impact on our consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity,” which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. Financial instruments that are within the scope of the statement, which previously were often classified as equity, must now be classified as liabilities. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise shall be effective at the beginning of the first interim period beginning after June 15, 2003. We do not expect the adoption of SFAS No. 150 to have an impact on our consolidated financial statements.

2. Completion of Initial Public Offering

On February 1, 2002, we completed an initial public offering of 5,000,000 shares of common stock, resulting in net proceeds, after underwriters’ discount and offering expenses, of $49.2 million. The underwriters purchased an additional 750,000 shares of common stock from certain selling stockholders from which we did not receive any proceeds. In connection with the initial public offering, we completed a change-of-domicile merger in which we were reincorporated in Delaware; our authorized capital was increased to 60,000,000 shares of common stock and 10,000,000 shares of preferred stock, each with a par value of $.001 per share; each share of common stock, no par value, was converted into one share of common stock, $.001 par value; and all of the preferred stock, including the net exercise of warrants, was converted into 11,099,415 shares of common stock.

3. Ownership Interest in Affiliated Company and Note Payable to Related Party

During the year ended June 30, 1998, we entered into agreements with National Semiconductor Corporation (National), then a related party, with respect to the formation of a development-stage company, Foveonics, Inc. (now known as Foveon, Inc.), which was formed to develop and produce digital imaging products. We contributed technology for which we had no accounting basis for a 30% interest in Foveon in the form of voting convertible preferred stock. Under the agreements, we had the right to acquire additional shares of convertible preferred stock at a specified price in exchange for a limited-recourse loan from National. National loaned us $1,500,000 under a limited-recourse note, which we utilized to purchase additional preferred shares of Foveon, which increased our ownership interest in Foveon to 43%. The note matures in 2007 and bears interest at 6.0% per annum. If the note and related accrued interest are not repaid, National’s sole remedy under the loan is to require us to return to National a portion of Foveon shares purchased with the proceeds of the loan and held by us.

During the year ended June 30, 1998, we recorded our share of losses incurred by Foveon under the equity accounting method on the basis of our proportionate ownership of voting convertible preferred stock and reduced the carrying value of this equity investment to zero as our share of losses incurred by Foveon exceeded the carrying value of the investment. No equity losses were recorded during the year ended June 30, 1999 as we did not have any carrying value associated with the investment.

During the year ended June 30, 2000, we advanced to Foveon a total of $2,712,000 in return for convertible promissory notes. The notes were convertible into shares of Foveon preferred stock in accordance with the defined terms, had a term of ten years, and bore interest at rates ranging from 6.5% to 6.85%, payable at maturity. During the year ended June 30, 2000, we recorded our share of losses incurred by Foveon on the basis of our proportionate share of funding provided to Foveon by us and National and accordingly recorded additional equity losses limited to the then maximum carrying value of our total investment, which was $2,712,000, including the ownership of convertible debt securities issued by Foveon. Accordingly, as of June 30, 2001, 2002, and 2003, the carrying value of our investment in Foveon had been reduced to zero as our share of losses incurred by Foveon exceeded the carrying value of the investment. We are not obligated to provide additional funding to Foveon.

In August 2000, the convertible promissory notes we held and related accrued interest were automatically converted into 443,965 shares of Foveon preferred stock in connection with an equity financing completed by Foveon.

In connection with the issuance of the convertible promissory notes, we also received warrants to purchase 106,718 shares of Foveon Series B preferred stock and warrants to purchase 22,918 shares of Foveon Series C preferred stock at exercise prices of $5.88 and $6.76 per share, respectively. The preferred shares are convertible into common shares upon a firm underwritten public offering of Foveon common stock for proceeds of at least $20 million and a pre-offering market capitalization of at least $225 million. The voting rights of preferred stock were restricted as to the election of board of directors and certain protective provisions with respect to the sale of Foveon or substantially all the assets of Foveon. The preferred stockholders also have the right of first refusal in connection with the purchase of new securities to be offered by Foveon.

4. Acquisitions

Acquisition of Absolute Sensors Limited

On October 26, 1999, we completed the acquisition of Absolute Sensors Limited (ASL), now known as Synaptics (UK) Limited. ASL, a United Kingdom-based company, is a developer of inductive sensing technology. We acquired all of the outstanding shares and certain assets of ASL in exchange for approximately $1,450,000 in cash and 652,025 shares of our common stock. The total purchase price of ASL, including acquisition-related costs of approximately $232,000, was $3,103,000. We allocated the total purchase price based on available information with respect to the fair value of assets acquired and liabilities assumed as follows (in thousands):

Acquired core technology	$ 201
Acquired in-process research and development	855
Acquired workforce	160
Purchased patents	154
Goodwill	1,663
Net book value of acquired assets and liabilities, which approximates fair value	70
Total purchase price	$3,103

(See Note 1 and the table below for the impact of the adoption of FAS 141 and FAS 142.)

The purchase price allocation performed by us resulted in a $855,000 in-process research and development charge related to the value of ASL's 3D position-sensing technology. The value of acquired in-process research and development represents the appraised value of technology in the development stage that had not yet reached economic and technological feasibility. In reaching this determination, we used a present value income approach and considered, among other factors, the stage of development of each product, the time and resources needed to complete each product, and expected income and associated risks. The stage of completion was determined by estimating the costs and time incurred and the milestones completed to date relative to the time and costs incurred to develop the in-process technology into a commercially viable technology or product. The estimated net present value of cash flows was based on incremental future cash flows from revenue expected to be generated by the technology or product being developed. The core technology, goodwill, and other intangibles are being amortized on a straight-line basis over periods from two to three years, which is the estimated useful lives of these acquired assets. Pursuant to the adoption of FAS 142, goodwill and other intangible assets with an indefinite useful life are no longer amortized. In addition, acquired workforce does not meet the criteria for separate recognition under FAS 142 and therefore is now combined with goodwill.

Under the agreement, we were obligated to issue an aggregate of up to an additional 200,000 shares of our common stock to ASL shareholders as additional purchase consideration if the sale of our products incorporating ASL technology reached a certain defined volume within a period of 24 months after the acquisition. In November 2001, the additional shares held in escrow were canceled, as we did not sell any products incorporating ASL technology through the expiration of the 24 month-period in October 2001.

This acquisition was accounted for as a purchase, and accordingly, the results of operations of ASL subsequent to October 26, 1999 are included in our consolidated statements of operations.

Acquisition of NSM Technology Limited

On June 26, 2003, we completed the acquisition of NSM Technology Limited (NSM), a Hong Kong company which is a wholly owned subsidiary of NSM Holdings Limited (NSM Holdings). NSM was a developer, manufacturer, and supplier of wireless telecommunication products and services. We acquired all of the outstanding shares of NSM in exchange for $960,000 in cash and a contingent payment of $240,000 that we made into an escrow account. Our CEO is a shareholder of NSM Holdings and currently owns approximately 3.86% of the outstanding shares of NSM Holdings.

We allocated the total purchase price excluding the escrow payment based on available information with respect to the fair value of assets acquired and liabilities assumed as follows (in thousands):

Goodwill	$1,203
Net tangible liabilities assumed	(200)
Total consideration	$1,003

Under the stock purchase agreement, we are also required to pay up to an additional $240,000 in cash to NSM Holdings contingent upon the realization of certain assets acquired within six months from the date of acquisition. We have not accounted for the $240,000 as purchase price as of June 30, 2003, but rather have classified the contingent payment as restricted cash in the accompanying June 30, 2003 consolidated balance sheet.

Goodwill and other acquired intangible assets consist of the following (in thousands):

	June 30,	
	2002	2003
Carrying value of goodwill	$ 765	$1,968
Other acquired Intangible Assets:		
Acquired core technology	201	201
Acquired sales representatives	150	150
Purchased patents	154	154
	505	505
Accumulated amortization	(465)	(505)
Carrying value of other acquired intangible assets	$ 40	$ —

Had we been accounting for goodwill and other intangible assets under FAS 142 since the date of the acquisition of ASL, the impact on the reported net income and basic and diluted net income per share for 2001 would have been as follows (in thousands, except per share data):

	Year ended June 30, 2001
Reported net income	$ 810
Add back: Goodwill amortization	555
Add Back: Acquired workforce amortization	80
Adjusted net income	$ 1,445
Net income per share — Basic	
Reported net income	$ 0.13
Goodwill amortization	0.09
Acquired workforce amortization	0.01
Adjusted net income per share — Basic	$ 0.23
Net income per share — Diluted	
Reported net income	$ 0.04
Goodwill amortization	0.03
Acquired workforce amortization	*
Adjusted net income per share — Diluted	$ 0.07

* Less than $0.01 per share.

5. Net Income Per Share

The following table presents the computation of basic and diluted net income per share, (dollars in thousands, except share amounts):

	Years Ended June 30, 2001	2002	2003
Numerator for basic and diluted net income per share:			
Net income	$ 810	$ 9,400	$ 7,718
Denominator for basic net income per share:			
Weighted average common shares outstanding	6,329,832	13,529,537	23,472,526
Less: Weighted average shares subject to repurchase	(195,946)	(6,094)	—
Denominator for basic net income per share	6,133,886	13,523,443	23,472,526
Denominator for diluted net income per share:			
Shares used above, basic	6,133,886	13,523,443	23,472,526
Dilutive stock options	2,614,663	2,484,360	1,659,338
Dilutive warrants	19,925	22,665	—
Dilutive preferred stock, until January 2002 IPO	11,073,517	6,492,418	—
Dilutive contingent shares	37,500	21,575	—
	19,879,491	22,544,461	25,131,864
Net income per share:			
Basic	$ 0.13	$ 0.70	$ 0.33
Diluted	$ 0.04	$ 0.42	$ 0.31

Diluted net income per share does not include the effect of the following potential antidilutive common shares:

	2001	2002	2003
Stock options outstanding	—	30,307	1,183,352

The weighted-average price of stock options excluded from the computation of diluted earnings per shares was $15.84 and $11.10 for the years ended June 30, 2002 and 2003, respectively.

6. Property and Equipment

Property and equipment consisted of the following (in thousands):

	June 30,	
	2002	2003
Equipment	$ 4,434	$ 5,047
Furniture	414	495
	4,848	5,542
Accumulated depreciation and amortization	(2,805)	(3,608)
Property and equipment, net	$ 2,043	$ 1,934

Depreciation expense for fiscal 2001, 2002, and 2003 was $876,000, $1,182,000, and $1,459,000, respectively.

7. Leases, Equipment Financing Obligations and Line of Credit

We lease our domestic facility under an operating lease that expires on May 31, 2005. We lease our UK facility under an operating lease that expires on May 3, 2007. Total rent expense, recognized on a straight-line basis, was approximately $708,000, $725,000, and $975,000 for the years ended June 30, 2001, 2002, and 2003, respectively.

Equipment Financing Obligations

Through June 30, 2003, we purchased a total of $618,000 of equipment under an equipment financing line. At June 30, 2002, the outstanding balance under this line was approximately $21,000. There was no outstanding balance at June 30, 2003. Obligations under this facility bear interest at rates ranging from between 7.79% and 8.89% per year, are payable monthly through September 2002, and are subject to certain financial covenants. Assets acquired under this arrangement secure the related obligations.

We entered into another $750,000 equipment financing line agreement during the year ended June 30, 2001. At June 30, 2003, the outstanding balance under this line approximated $211,000. Obligations under this facility bear interest at rates ranging between 5.80% and 7.60% per year, are payable monthly through September 2004, and are subject to certain financial covenants. Assets acquired under this arrangement secure the related obligations.

Leases

We also lease certain software and equipment under noncancelable lease agreements that are accounted for as capital leases. Equipment acquired under capital leases aggregated approximately $579,000 at June 30, 2002. No acquisitions of equipment under capital leases were made during the year ended June 30, 2003. Amortization expense related to assets under capital leases is included in depreciation expense. At June 30, 2002 and 2003, the outstanding balance payable under these capital leases approximated $197,000 and $48,000, respectively.

The aggregate future minimum rental commitments as of June 30, 2003 for noncancelable operating leases and capital and equipment financing obligations with initial or remaining terms in excess of one year are as follows (in thousands):

	Operating Leases	Capital Leases and Equipment Financing Obligations
2004	$ 1,081	$ 238
2005	1,018	28
2006	294	—
2007	241	—
Total minimum lease payments	$ 2,634	266
Less amounts representing interest		7
Present value of net minimum lease payments		259
Less portion due within one year		231
		$ 28

The software and equipment recorded under capital leases included in property and equipment was $925,000 as of June 30, 2002 and 2003. Related accumulated depreciation was $493,000 and $801,000 as of June 30, 2002 and 2003, respectively.

Line of Credit

In August 2001, we entered into a $4.2 million revolving line of credit (“line of credit”) with a bank. This revolving line of credit was set to expire on October 31, 2002 and had an interest rate equal to the bank’s prime lending rate, which was 4.25% at June 30, 2003. On November 25, 2002, we signed a Loan Modification Agreement extending the expiration to November 29, 2003. Borrowings under this line of credit are subject to certain financial and non-financial covenants, and are limited to 75% of qualifying account receivables as defined in the agreement with the bank. This line of credit agreement places restrictions on the payment of any dividends. As of June 30, 2003, we had not borrowed any amounts under this facility.

8. Stockholder’s Equity

We have a Stockholders’ Rights Plan that may have the effect of deterring, delaying, or preventing a change in control that might otherwise be in the best interests of our stockholders. In general, stock purchase rights issued under the Plan become exercisable when a person or group acquires 15% or more of our common stock or a tender offer or exchange offer of 15% or more of our common stock is announced or commenced. After any such event, our other stockholders may purchase additional shares of our common stock at 50% of the then-current market price. The rights will cause substantial dilution to a person or group that attempts to acquire us on terms not approved by our board of directors. The rights should not interfere with any merger or other business combination approved by our board of directors since the rights may be redeemed by us at $0.01 per stock purchase right at any time before any person or group acquires 15% or more of our outstanding common stock. The rights expire in August 2012.

Preferred Stock

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

The Board of Directors may authorize the issuance of preferred stock with voting or conversion rights that could harm the voting power or other rights of the holders of our common stock. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, have the effect of delaying, deferring, or preventing a change in control of our company and might harm the market price of our common stock and the voting power and other rights of the holders of common stock. We have no current plans to issue any shares of preferred stock. As of June 30, 2003, there were no shares of preferred stock outstanding.

Stock-Based Compensation

During 1986, 1996, 2000, and 2001, we adopted stock option plans (the “Plans”) under which employees and directors may be granted incentive stock options or nonqualified stock options to purchase up to a total of 7,650,000 shares of our common stock at not less than 100% or 85% of the fair value, respectively, on the date of grant as determined by the Board of Directors.

Options issued under the Plans generally vest 25% at the end of 12 months from the vesting commencement date and approximately 2% each month thereafter or 100% at the end of 48 months from the vesting commencement date. Options not exercised ten years after the date of grant are canceled.

The 1986 Stock Option Plan expired by its terms with respect to any future option grants effective November 1996. At June 30, 2003, all shares available for issuance were pursuant to the 1996 Stock Option Plan, the 2000 Nonstatutory Stock Option Plan, and the 2001 Incentive Compensation Plan.

During the year ended June 30, 2001, we granted options for the purchase of 17,000 shares of common stock to consultants and advisors in consideration for services, at an exercise price of $2.50 per share. These options became vested and exercisable upon achievement of predetermined milestones and accordingly were subject to periodic re-measurement over the vesting period of six months. We recorded deferred stock compensation of approximately $168,000 for the year ended June 30, 2001, representing the fair value of stock options on the respective grant dates, which was computed on the basis of Black-Scholes methodology using the valuation inputs similar to those used for employees except for the use of contractual life of the options instead of expected life. We recorded compensation expense of approximately $223,000 for the year ended June 30, 2001 related to the amortization of deferred compensation for these options. These options became fully vested during the year ended June 30, 2001.

We also recorded compensation charges of $202,000 for the year ended June 30, 2001 in connection with the modification of terms of stock options granted to certain employees, which modification related to the acceleration of vesting upon termination of employment and exercisability of the option for the aggregate number of 73,750 shares. The compensation expense was computed on the basis of intrinsic value representing the difference between the option exercise price and the deemed fair value of underlying common stock on the respective date of modification of terms. The underlying options had exercise prices ranging from $2.00 to $2.50 per share. As of June 30, 2001, all of the options were fully vested and had been exercised.

In October 2002, we granted 200,000 options to a consultant that at the time were to vest over four years. However, in December 2002, the consultant was hired by us as an employee. In accordance with FIN 44, Accounting for Certain Transactions Involving Stock Compensation, we remeasured the intrinsic value of the option grant on the date the consultant became an employee and recorded deferred compensation in the amount of $734,000 as the aggregate difference between the stock price and the exercise price of $4.34 for these options on the date of employment status change. We are amortizing the deferred compensation balance over the remaining vesting periods of the option.

In August 2002, the Board approved an option regrant offer to multiple employees who had received option grants under the 2001 Incentive Compensation Plan at an option share price of between $12.98 and $18.70. The option price was substantially higher than the current price of our stock at that time. The employees were allowed to elect to have their option cancelled. In return for the cancellation, we issued new options for the same number of shares as cancelled six months and one day from the date of cancellation. The vesting period and schedule for the new options remained the same as the vesting schedule of the previously cancelled options. On March 3, 2003, a total of 106,500 shares were granted with a new exercise price per share of $6.56 under this regrant offer.

The following table summarized option activity for the years ended June 30, 2001, 2002, and 2003:

	Options Available for Grant	Options Outstanding	Weighted Average Exercise Price
Balance at June 30, 2000	287,466	3,500,020	$ 1.77
Additional shares authorized	1,600,000	—	
Options granted	(1,651,272)	1,651,272	$ 4.24
Options exercised	—	(653,561)	$ 1.35
Options cancelled	506,490	(526,490)	$ 2.04
Balance at June 30, 2001	742,684	3,971,241	$ 2.81
Additional shares authorized	600,000	—	
Options granted	(1,148,240)	1,148,240	$ 9.90
Options exercised	—	(443,518)	$ 1.88
Options cancelled	169,711	(169,711)	$ 4.56
Balance at June 30, 2002	364,155	4,506,252	$ 4.64
Additional shares authorized	2,838,077	—	
Options granted	(1,541,500)	1,541,500	$ 6.25
Options exercised	—	(491,768)	$ 3.00
Options cancelled	346,790	(346,790)	$10.12
	2,007,522	5,209,194	$ 4.90

The weighted average per share fair value of options granted was $2.25, $5.15 and $6.49 for the years ended June 30, 2001, 2002, and 2003, respectively.

The following table summarizes stock options outstanding at June 30, 2003:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.60	6,875	1.96	$ 0.60	6,875	$ 0.60
$1.00	481,130	5.26	$ 1.00	481,130	$ 1.00
$2.00	538,042	6.17	$ 2.00	490,657	$ 2.00
$2.50	607,307	6.71	$ 2.50	397,253	$ 2.50
$2.90	40,000	4.05	$ 2.90	40,000	$ 2.90
$3.00	636,033	7.23	$ 3.00	162,525	$ 3.00
$3.50 - $5.50	494,084	8.36	$ 4.20	121,262	$ 4.19
$6.00	640,550	9.09	$ 6.00	4,590	$ 6.00
$6.50 - $8.19	663,959	9.43	$ 7.23	30,786	6.53
$8.50	743,214	8.18	$ 8.50	271,769	8.50
$9.00	339,000	8.53	$ 9.00	23,066	9.00
$18.70	19,000	8.82	$18.70	5,582	18.70
$.60 - $18.70	5,209,194	7.69	$ 4.90	2,035,495	$ 3.16

At June 30, 2002, 1,486,501 shares were exercisable at a weighted average exercise price of $2.41.

Deferred Compensation

We recorded deferred stock compensation of $1,940,000 and $734,000 during the years ended June 30, 2001 and 2003, respectively, representing the aggregate difference between the exercise prices of options granted to employees and the deemed fair values for common stock subject to the options as of the respective measurement dates. These amounts are being amortized by charges to operations, on a straight-line basis over the vesting periods of the individual stock options. During the years ended June 30, 2001, 2002 and 2003, we recorded $374,000, $453,000, and $516,000, respectively, of amortization expense related to deferred stock compensation. Also during the year ended June 30, 2002 we recorded a reversal of $111,000 of deferred stock compensation and amortization expense for terminated employees. There were no such reversals during the years ended June 30, 2001 and 2003.

Shares Reserved for Future Issuance

We have reserved shares of common stock for future issuance as follows:

	June 30, 2003
Stock options outstanding	5,209,194
Stock options, available for grant	2,007,522
Total	7,216,716

9. Notes Receivable from Stockholders

During the years ended June 30, 1999 and 2000, we received $493,000 and $300,000, respectively, of full-recourse notes receivable from certain employees, which notes bear interest at rates ranging from 4.5% to 6.1%, in consideration for stock issued upon the exercise of stock options. During the year ended June 30, 2001, we received $200,000 of full-recourse and $73,000 of non-recourse notes receivable from certain employees in consideration for stock issued upon the exercise of stock options. These notes bear interest rates ranging from 6.1% to 6.3%. The notes and accrued interest, which are compounded semiannually, become due over the period from December 2002 to October 2009 or upon termination of employment, whichever is earlier. As of June 30, 2002 and 2003, the principal amounts outstanding amounted to $876,000 and $20,000, respectively. The non-recourse notes receivable were issued in connection with fully vested and exercisable stock options. We received cash payments aggregating $856,000 in 2003 on these notes receivable.

10. Employee benefit plans

401(k) Plan

We have a 401(k) Retirement Savings Plan for full-time employees (the Plan). Under the Plan, eligible employees may contribute a maximum of 25% of their net compensation or the annual limit of $12,000. The annual limit for employees who are 50 years or older is $14,000. We do not provide any matching funds.

2001 Employee Stock Purchase Plan

We adopted the 2001 Employee Stock Purchase Plan (the Purchase Plan) in February 2001. The Purchase Plan became effective on January 29, 2002, the effective date of the registration statement for the initial public offering . The Purchase Plan allows employees to designate up to 15% of their total compensation, subject to legal restrictions and limitations, to purchase shares of common stock at 85% of fair market value. We reserved 1,231,827 shares of common stock for issuance under the Purchase Plan. During the year ended June 30, 2003, 161,352 shares of common stock were issued under the Purchase Plan.

11. Income Taxes

Income before provision for income taxes consisted of the following (in thousands):

	Year Ended June 30,		
	2001	2002	2003
U.S	$1,371	$14,198	$11,602
Foreign	(381)	258	460
Total	$ 990	$14,456	$12,062

The provision for income taxes consists of the following (in thousands):

	Year Ended June 30,		
	2001	2002	2003
Current:			
Federal	$ 475	$ 5,341	$3,487
State	1	920	871
Foreign	104	140	168
Total current	580	6,401	4,526
Deferred:			
Federal	(400)	(1,345)	121
State	—	—	(303)
Foreign	—	—	—
Total deferred	(400)	(1,345)	(182)
Total provision for income taxes	$ 180	$ 5,056	$4,344

The provision for income taxes differs from the federal statutory rate as follows (in thousands):

	Year Ended June 30,		
	2001	2002	2003
Provision at U.S. federal statutory rate	$ 347	$5,059	$4,222
State income taxes	—	598	369
Utilization of net operating losses	(236)	—	—
Change in valuation allowance	—	(789)	—
Goodwill and other intangible assets	263	47	—
Research and development credit	(536)	(400)	(314)
Amortization of deferred compensation	279	121	(396)
Meals, entertainment and other permanent differences	63	420	463
	$ 180	$5,056	$4,344

Significant components of our deferred tax assets are as follows (in thousands):

	Year Ended June 30,	
	2002	2003
Deferred tax assets:		
Investment writedowns	$ 1,085	$ 1,094
Inventory writedowns	619	449
Warranty reserve	401	404
Depreciation and amortization	267	217
Accrued compensation	575	569
Accruals not currently deductible	206	602
Foreign loss carryforwards	—	565
Total gross deferred tax assets	3,153	3,900
Valuation allowance	(1,388)	(2,012)
Total net deferred tax assets	1,765	1,888
Deferred tax liabilities:		
Foreign income repatriation	(20)	(20)
Total deferred tax liabilities	(20)	(20)
Net deferred tax assets, net of deferred tax liabilities	$ 1,745	$ 1,868

Realization of deferred tax assets depends on our generating sufficient taxable income in future years to obtain benefit from the reversal of deferred tax assets. As of June 30, 2003, a valuation allowance of $2,012,000 has been established to reduce the deferred tax assets to the levels that we believe are more likely than not to be realized through future taxable income. The valuation allowance increased (decreased) by ($800,000), ($2,046,000) and $624,000 during the years ending June 30, 2001, 2002, and 2003, respectively.

As of June 30, 2003, we had no available federal and state net operating loss and tax credit carryforwards to offset future income tax liabilities. We had net operating loss carryforwards of approximately $3,533,000 generated in foreign jurisdictions, which can be utilized to offset future taxable income in the foreign jurisdictions.

12. Segment, Customers, and Geographic Information

We operate in one segment: the development, marketing, and sale of interactive user interface solutions for intelligent electronic devices and products. We generate our revenue from two broad product categories: the notebook computer market and information appliances ("iAppliances and other electronic devices") market. Our chief operating decision maker, the Chief Executive Officer, reviews financial information presented on a consolidated basis for purposes of making operating decisions and addressing financial performance. The notebook computer market accounted for 98% and 93% of our net revenue in the years ended June 30, 2002 and 2003.

The following is a summary of operations within geographic areas based on our customers' location (in thousands):

	Year Ended June 30,		
	2001	2002	2003
Revenue from sales to unaffiliated customers in :			
Taiwan	$58,902	$ 77,807	$ 55,171
United States	10,351	3,240	4,342
Korea	2,012	2,502	4,629
China	655	5,280	25,979
Japan	758	3,945	5,286
Other	1,020	7,427	5,294
	$73,698	$100,201	$100,701

	June 30,	
	2002	2003
Long-lived assets within geographic areas consisted of the following (in thousands):		
Taiwan	$ 42	$ 36
United Kingdom	692	356
United States	1,309	1,498
Hong Kong	—	44
	$2,043	$1,934

Major customer revenue as a percentage of total revenue:

	Year Ended June 30,		
	2001	2002	2003
Customer A	32%	16%	2%
Customer B	6%	7%	14%
Customer C	11%	12%	—

SCHEDULE II

SYNAPTICS INCORPORATED AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS
Years Ending June 30, 2001, 2002 and 2003
(in thousands)

	Balance at Beginning of Year	Additions Charged to Expense	Adjustments to Reserve	Balance at End of Year
Reserve deducted from assets— allowance for doubtful accounts:				
2001	$ 120	$ 5	$ —	$ 125
2002	125	75	—	200
2003	200	10	50	160

Exhibit Index

Exhibit Number	Exhibit
2	Agreement and Plan of Merger (1)
3.1	Certificate of Incorporation (1)
3.2	Bylaws (1)
4	Form of Common Stock Certificate (2)
10.1	1986 Incentive Stock Option Plan and form of grant agreement (3)
10.2	1986 Supplemental Stock Option Plan and form of grant agreement (3)
10.3(a)	1996 Stock Option Plan (3)
10.3(b)	Form of grant agreements for 1996 Stock Option Plan (2)
10.4	2000 U.K. Approved Sub-Plan to the 1996 Stock Option Plan and form of grant agreement (3)
10.5	2000 Nonstatutory Stock Option Plan and form of grant agreement (3)
10.6(a)	Amended and Restated 2001 Incentive Compensation Plan (4)
10.6(b)	Form of grant agreements for Amended and Restated 2001 Incentive Compensation Plan (4)
10.7(a)	Corrected Amended and Restated 2001 Employee Stock Purchase Plan (as amended through February 20, 2002) (2)
10.7(b)	2001 Employee Stock Purchase Sub-Plan for U.K. Employees (2)
10.8	401(k) Profit Sharing Plan (3)
10.9	Agreement dated as of October 13, 1999 by and among the registrant and the Principal Shareholders of Absolute Sensors Limited (3)
10.10	Lease dated as of September 17, 1999 by and between Silicon Valley Properties, LLC as Landlord and the registrant as Tenant (3)
10.11	Master Equipment Lease Agreement dated as of November 28, 2000 by and between KeyCorp Leasing, a Division of Key Corporate Capital Inc., and the registrant (1)
10.12	Subordinated Secured Non-Recourse Promissory Note dated August 12, 1997 executed by the registrant in favor of National Semiconductor Corporation (3)
10.13	Form of Stock Option Grant and Stock Option Agreement between the registrant and Federico Faggin (3)
10.14	Form of Stock Option Grant and Stock Option Agreement between the registrant and Francis F. Lee (3)
10.15	Form of Stock Option Grant and Stock Option Agreement between the registrant and Russell J. Knittel (3)
10.16	Loan and Security Agreement dated as of August 30, 2001 between Silicon Valley Bank and the registrant (3)
10.17	Form of Indemnification Agreement entered into as of January 28, 2002 with the following directors and executive officers: Federico Faggin, Francis F. Lee, Donald E. Kirby, Russell J. Knittel, Shawn P. Day, Richard C. McCaskill, David T. McKinnon, Thomas D. Spade, William T. Stacy, Keith B. Geeslin, Richard L. Sanquini, and Joshua C. Goldman, and as of April 23, 2002 with W. Ronald Van Dell (1)
10.18	Severance Policy for Principal Executive Officers
10.19	Change of Control and Severance Agreement entered into by Francis F. Lee as of April 22, 2003
10.20	Form of Change of Control and Severance Agreement entered into by Donald E. Kirby and Russell J. Knittel as of April 22, 2003
21	List of Subsidiaries
23.1	Consent of Ernst & Young LLP, independent auditors
23.2	Consent of KPMG LLP, independent auditors

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended.

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended.

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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(1) Incorporated by reference to the registrant's Form 10-Q for the quarter ended December 29, 2001, as filed with the SEC on February 21, 2002.

(2) Incorporated by reference to the registrant's Form 10-K for the fiscal year ended June 30, 2002, as filed with the SEC on September 12, 2002.

(3) Incorporated by reference to the registrant's registration statement on Form S-1 (Registration No. 333-56026) as filed with the SEC January 22, 2002 and declared effective January 28, 2002.

(4) Incorporated by reference to the registrant's Form 10-Q for the quarter ended December 28, 2002, as filed with SEC on February 6, 2003.

EXHIBIT 10.18

SYNAPTICS INCORPORATED (THE "COMPANY")
SEVERANCE POLICY FOR PRINCIPAL EXECUTIVE OFFICERS

Dated April 22, 2003

1. PURPOSE

The purpose of this Severance Policy is to provide a fair framework in the event of the termination of employment of one or more key executive officers (each an "Executive") of the Company.

2. COVERED PRINCIPAL EXECUTIVE OFFICERS

This Policy shall be applicable to the Chief Executive Officer and the President. It shall also apply to each Executive Vice President, each Senior Vice President, and each other executive officer, if any, as shall be designated and notified in writing by the Company upon nomination by the Chief Executive Officer and approval of the Board of Directors or the Compensation Committee of the Board of Directors.

3. DEFINITIONS

(a) DISABILITY. Incapacity due to physical or mental illness or injury that causes Executive to be absent from Executive's full-time duties for six consecutive months or more.

(b) GOOD CAUSE. "Good Cause," as it applies to the determination of the Company to terminate the employment of an Executive, shall mean any one or more of the following: (A) Executive's willful, material, and irreparable breach of his or her duties to the Company; (B) Executive's gross negligence in the performance or intentional nonperformance (continuing for 30 days after receipt of written notice of need to cure) of any of Executive's material duties and responsibilities; (C) Executive's willful dishonesty, fraud, or misconduct with respect to the business or affairs of the Company, which materially and adversely affects the operations or reputation of the Company; (D) Executive's indictment for, conviction of, or guilty plea to a felony crime involving dishonesty or moral turpitude whether or not relating to the Company; or (E) a confirmed positive illegal drug test result.

(c) GOOD REASON. "Good Reason," as it applies to the determination by an Executive to terminate his or her employment shall mean the occurrence of any of the following events without Executive's prior written approval: (1) Executive is demoted by means of a reduction in authority or responsibilities or Executive is required to render his or her primary employment services from a location more than 50 miles from the Company's headquarters as of the time Executive began his or her employment with the Company; (2) Executive's annual base salary for a fiscal year is reduced to a level that is less than 90% of the base salary paid to Executive during the prior fiscal year; or (3) a change is made in Executive's bonus (including a reduction in any Targeted Bonus) to a level that is less than 90% of the Targeted Bonus for Executive during the prior fiscal year.

4. RESULT OF TERMINATION

(a) DEATH. Upon Executive's death, the Company shall, for a period of one year following such death in the case of the CEO and for a period of six months in the case of any other principal executive officer covered by this Policy, pay to the estate of Executive an amount equal to Executive's base salary and Targeted Bonus for the fiscal year during which death occurs and continue to pay all premiums for coverage for Executive's dependent family members under all health, hospitalization, disability, dental, life, and other insurance plans that the Company maintained at the time of Executive's death.

(b) DISABILITY. In the event Executive's employment is terminated as a result of Executive's disability, Executive shall receive from the Company, in a lump-sum payment due within ten days of the effective date of such termination, an amount equal to Executive's base salary and Targeted Bonus for the fiscal year during which such termination occurs in the case of the CEO and an amount equal to fifty percent of Executive's base salary and Targeted Bonus for the fiscal year during which such termination occurs in the case of any other principal executive officer covered by this Policy. These disability benefits are independent of any disability insurance benefits that Executive receives.

(c) TERMINATION BY THE COMPANY WITHOUT GOOD CAUSE OR BY EXECUTIVE WITH GOOD REASON. The following provisions shall apply should the Company terminate Executive's employment without Good Cause or should Executive terminate Executive's employment with Good Reason:

(i) SALARY AND BONUS. The Company shall pay to Executive for one year following the event that triggered termination in the case of the CEO and six months following the event that triggered termination in the case of any other principal executive officer covered by this Policy, on such dates as would otherwise be paid by the Company, a pro rata amount based on Executive's base salary and Targeted Bonus for the fiscal year during which such termination occurs.

(ii) WELFARE BENEFIT PLANS. The Company will continue, for one year following the event that triggered termination in the case of the CEO and for six months following the event that triggered termination in the case of each other principal executive officer covered by this Policy, all benefits for Executive and Executive's family under all welfare benefits plans, practices, policies, and programs provided by the Company and its subsidiaries (including medical, prescription, dental, disability, employee life, group life, accidental death, and travel accident insurance plans, practices, policies, and programs) in effect for Executive and Executive's family as of the date of the triggering event or use its best efforts to provide comparable coverage at no cost to Executive by way of making the family medical insurance provision payments contemplated by COBRA or otherwise.

(iii) STOCK OPTIONS. All unvested options held by Executive as of the date of the triggering event shall continue to vest for a period of one year after such triggering event in the case of the CEO and six months after such triggering event in the case of any other principal executive officer covered by this Policy. The above notwithstanding, this provision shall not alter (1) the exercise period of any vested options as of the triggering event and (2) any specific accelerated vesting provisions included in Executive's stock option grants.

(iv) ACCRUED BENEFITS. Executive shall be entitled to receive all other accrued but unpaid benefits relating to vacations and other executive perquisites through Executive's last day of employment, except that Executive shall not continue to accrue vacation benefits or other executive perquisites after the event that triggered the termination through the termination date.

5. MINIMUM EMPLOYMENT TERM

This Severance Policy shall not be applicable to any executive officer until that officer has completed a minimum of one full year employment with the Company.

EXHIBIT 10.19

CHANGE OF CONTROL SEVERANCE AGREEMENT

CHANGE OF CONTROL SEVERANCE AGREEMENT (this "Agreement"), by and between SYNAPTICS INCORPORATED, a Delaware corporation (the "Company"), and FRANCIS F. LEE ("Executive") is entered into as of the 22nd day of April, 2003.

RECITALS

A. The Company is engaged primarily in the business of the development and supply of custom-designed user interface solutions that enable people to interact more easily and intuitively with a wide variety of mobile computing and communications devices (collectively, the "Business").

B. Executive currently serves as the Chief Executive Officer of the Company.

C. The Board of Directors of the Company (the "Board") has determined that it is in the best interests of the Company and its stockholders to assure that the Company will have the continued dedication of Executive despite the possibility, threat, or occurrence of a Change of Control (as defined below) of the Company.

D. The Board believes it is imperative to diminish the inevitable distraction of Executive by virtue of the personal uncertainties and risks created by a pending or threatened Change of Control, to encourage Executive's full attention and dedication to the Company currently and in the event of any threatened or pending Change of Control, and to provide the Executive with compensation arrangements upon a Change of Control that afford Executive with a requisite amount of individual financial security and are competitive with those of other corporations. In order to accomplish these objectives, the Board has caused the Company to enter into this Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual promises, terms, covenants, and conditions set forth herein and the performance of each, it is hereby agreed as follows:

1. CERTAIN DEFINITIONS.

(a) EFFECTIVE DATE. The "Effective Date" shall be the first date during the "Change of Control Period" (as defined below) on which a Change of Control occurs.

(b) CHANGE OF CONTROL PERIOD. The "Change of Control Period" is the period commencing on the date hereof and ending on the first anniversary of such date; provided, however, that the Change of Control Period shall extend automatically for an additional day at the end of each day during the Change of Control Period so that the Change of Control Period is always the shorter of one (1) year or Executive's Normal Retirement Date.

(c) CHANGE OF CONTROL. For the purpose of this Agreement, a "Change of Control" shall mean:

(i) CHANGE OF CONTROL. A "Change in Control" shall mean a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended, or if Item 6(e) is no longer in effect, any regulations issued by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, which serve similar purposes; provided further that, without limitation, a Change in Control shall be deemed to have occurred if and when:

(ii) TURNOVER OF BOARD. The following individuals no longer constitute a majority of the members of the Board: (A) the individuals who, as of the date of this Agreement constitute the Board (the "Current Directors"); (B) the individuals who thereafter are elected to the Board and whose election, or nomination for election, to the Board was approved by a vote of all of the Current Directors then still in office (such directors becoming "Additional Directors" immediately following their election); and (C) the individuals who are elected to the Board and whose election, or nomination for election, to the Board was approved by a vote of all of the Current Directors and Additional Directors then still in office (such directors also becoming "Additional Directors" immediately following their election);

(iii) TENDER OFFER. A tender offer or exchange offer is made whereby the effect of such offer is to take over and control the Company, and such offer is consummated for the equity securities of the Company representing twenty percent (20%) or more of the combined voting power of the Company's then outstanding voting securities;

(iv) MERGER OR CONSOLIDATION. The stockholders of the Company shall approve a merger, consolidation, recapitalization, or reorganization of the Company, a reverse stock split of outstanding voting securities, or consummation of any such transaction if stockholder approval is not obtained, other than any such transaction that would result in at least 75% of the total voting power represented by the voting securities of the surviving entity outstanding immediately after such transaction being beneficially owned by the holders of outstanding voting securities of the Company immediately prior to the transaction, with the voting power of each such continuing holder relative to other such continuing holders not substantially altered in the transaction;

(v) LIQUIDATION OR SALE OF ASSETS. The stockholders of the Company shall approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or a substantial portion of the Company's assets to another person, which is not a wholly owned subsidiary of the Company (i.e., 50% or more of the total assets of the Company); or

(vi) STOCKHOLDINGS. Any "person" (as that term is used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under that act), directly or indirectly of more than twenty percent (20%) of the total voting power represented by the Company's then outstanding voting Securities.

2. EMPLOYMENT AND DUTIES.

(a) EMPLOYMENT. The Company hereby agrees to continue Executive in its employ, and the Executive hereby agrees to remain in the employ of the Company, for the period commencing on the Effective Date and ending on the first anniversary of the Effective Date (the "Employment Period"); provided, however, that the Employment Period shall extend automatically for an additional day at the end of each day during the Employment Period on the same terms and conditions contained herein as in effect as of the time of each extension, without taking into account any modifications that are not agreed to by Executive, so that the Employment Period is always one (1) year until termination as provided herein. Executive agrees to devote Executive's best efforts and, subject to paragraph 2(d) hereof, substantially all of Executive's business time and attention to promote and further the business of the Company.

(b) POSITION AND DUTIES. During the Employment Period, Executive's position (including status, offices, titles, and reporting requirements), authority, duties, and responsibilities shall be at least commensurate in all material respects with the most significant of those held, exercised, and assigned at any time during the 180-day period immediately preceding the Effective Date.

(c) POLICIES. Executive shall faithfully adhere to, execute, and fulfill all lawful policies established by the Company.

(d) OTHER ACTIVITIES. Executive shall not, during the Employment Period, be engaged in any other business activity pursued for gain, profit, or other pecuniary advantage if such activity interferes in any material respect with Executive's duties and responsibilities hereunder. The foregoing limitations shall not be construed as prohibiting Executive from (i) making personal investments in such form or manner as will neither require Executive's services in the operation or affairs of the companies or enterprises in which such investments are made nor subject Executive to any conflict of interest with respect to Executive's duties to the Company; (ii) serving on any civic or charitable boards or committees; (iii) delivering lectures or fulfilling speaking engagements; or (iii) serving, with the written approval of the Board, as a director of one or more public corporations, in each case so long as any such activities do not significantly interfere with the performance of Executive's responsibilities under this Agreement.

(e) PLACE OF PERFORMANCE. Executive shall not be required by the Company or by the performance of Executive's duties under this Agreement either to perform Executive's principal duties at a work location more than fifty (50) miles from the Company's current principal executive offices.

3. COMPENSATION. For all services rendered by Executive, the Company shall compensate Executive as follows:

(a) BASE SALARY. During the Employment Period, Executive shall receive a base salary ("Base Salary") at a monthly rate at least equal to the monthly base salary paid or payable to Executive by the Company on the Effective Date. During the Employment Period, the Base Salary shall be reviewed at least annually and shall be increased at any time and

from time to time as shall be substantially consistent with increases in base salary awarded in the ordinary course of business to other key executives of the Company and its subsidiaries. Any increase in Base Salary shall not serve to limit or reduce any other obligation to Executive under this Agreement. Base Salary shall not be reduced after any such increase.

(b) ANNUAL BONUS. In addition to Base Salary, Executive shall be eligible to receive a bonus or other incentive compensation as may be determined by the Board or a committee of the Board based upon such factors as the Board or such committee, in its sole discretion, may deem relevant, including, without limitation, the performance of Executive and the Company; provided, however, that the Board or a committee of the Board shall establish for each fiscal year of the Company either (i) a bonus program in which Executive shall be entitled to participate, which provides Executive with a reasonable opportunity, based on the past compensation practices of the Company and Executive's then base salary, to maintain or increase Executive's total compensation compared to the previous fiscal year or (ii) a targeted bonus based on such factors as the Board may determine (the "Targeted Bonus"). Notwithstanding the foregoing, Executive shall be awarded, for each fiscal year during the Employment Period, an annual bonus (an "Annual Bonus") either pursuant to any then-established incentive compensation plan(s) of the Company or otherwise, in cash at least equal to the highest bonus payable to Executive by the Company and its subsidiaries in respect of any of the two fiscal years immediately preceding the fiscal year in which the Effective Date occurs. Nothing in this Agreement shall require the payment of an Annual Bonus prior to the Effective Date.

(c) INCENTIVE, SAVINGS, AND RETIREMENT PLANS. In addition to Base Salary and Annual Bonus payable as above provided, Executive shall be entitled to participate during the Employment Period in all incentive, savings, and retirement plans, practices, policies and programs applicable to other key executives of the Company (including its successors or assigns) and its affiliates, in each case comparable to those in effect on the Effective Date or as subsequently amended. Such plans, practices, policies, and programs, in the aggregate, shall provide Executive with compensation, benefits, and reward opportunities at least as favorable as the most favorable of such compensation, benefits and reward opportunities provided by the Company for Executive under such plans, practices, policies, and programs as in effect at any time during the 180-day period immediately preceding the Effective Date or, if more favorable to Executive, as provided at any time thereafter with respect to other key executives.

(d) WELFARE BENEFIT PLANS. During the Employment Period, Executive and/or Executive's family who are qualified to participate, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies, and programs provided by the Company and its subsidiaries (including, without limitation, medical, prescription, dental, disability, salary continuance, employee life, group life, accidental death, and travel accident insurance plans and programs), at least as favorable as the most favorable of such plans, practices, policies, and programs in effect at any time during the 180-day period immediately preceding the Effective Date or, if more favorable to Executive and/or Executive's family, as in effect at any time thereafter with respect to other key executives.

(e) EXPENSES. During the Employment Period, Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by Executive in connection with the business of the Company in accordance with the most favorable policies,

practices, and procedures of the Company and its subsidiaries in effect at any time during the 180-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect at any time thereafter with respect to other key executives.

(f) OFFICE AND SUPPORT STAFF. During the Employment Period, Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to secretarial and other assistance, at least equal to the most favorable of the foregoing provided to Executive by the Company and its subsidiaries at any time during the 180-day period immediately preceding the Effective Date or, if more favorable to Executive, as provided at any time thereafter with respect to other key executives of the Company and its subsidiaries.

(g) VACATION. During the Employment Period, Executive shall be entitled to paid vacation in accordance with the most favorable plans, policies, programs and practices of the Company and its subsidiaries as in effect at any time during the 180-day period immediately preceding the Effective Date or, if more favorable to Executive, as in effect at any time thereafter with respect to other key executives of the Company and its subsidiaries.

4. NON-COMPETITION AGREEMENT.

(a) NON-COMPETITION. Notwithstanding the provisions of California law, including, without limitation, Bus. & Prof. Code Secs. 16600 et. seq. and 17200 et. sec., the parties agree that, during Employment Period, and for a period for which severance payments are being made by the Company to Executive in accordance with this Agreement, Executive shall not, directly or indirectly, for himself or on behalf of or in conjunction with any other person:

(i) OTHER ACTIVITIES. Engage, as an officer, director, shareholder, owner, principal, partner, lender, joint venturer, employee, independent contractor, consultant, advisor, or sales representative, in any Competitive Business within the Restricted Territory, provided that the ownership of less than 3% of a company shall not be deemed a violation of this provision;

(ii) SOLICITATION OF EMPLOYEES. Call upon any person who is, at that time, within the Restricted Territory, an employee of the Company or any of its subsidiaries, in a managerial or supervisory capacity for the purpose or with the intent of enticing such employee away from or out of the employ of the Company or any of its subsidiaries;

(iii) SOLICITATION OF CUSTOMERS. Call upon any person who is, at that time, or who has been, within one (1) year prior to that time, a customer of the Company or any of its subsidiaries, within the Restricted Territory for the purpose of soliciting or selling products or services in direct competition with the Company or any of its subsidiaries within the Restricted Territory;

(iv) SOLICITATION OF ACQUISITION CANDIDATES. Call upon any prospective acquisition candidate, on Executive's own behalf or on behalf of any person, which candidate was, to Executive's knowledge after due inquiry, either called upon by the Company, or for which the Company made an acquisition analysis, for the purpose of acquiring such candidate.

(b) CERTAIN DEFINITIONS. As used in this Agreement, the following terms shall have the meanings ascribed to them:

(i) COMPETITIVE Business shall mean any person that engages in a business the same as, similar to, or in direct competition with the Business;

(ii) PERSON shall mean any individual, corporation, limited liability company, partnership, firm, or other business of whatever nature;

(iii) RESTRICTED Territory shall mean any jurisdiction in which the Company or any subsidiary of the Company maintains any facilities, sells any products, or provides any services; and

(iv) SUBSIDIARY shall mean the Company's consolidated subsidiaries, including corporations, partnerships, limited liability companies, and any other business organization in which the Company holds at least a fifty percent (50%) equity interest.

(c) ENFORCEMENT. Because of the difficulty of measuring economic losses to the Company as a result of a breach of the foregoing covenants in this paragraph 4, and because of the immediate and irreparable damage that could be caused to the Company for which it would have no other adequate remedy, Executive agrees that the foregoing covenants may be enforced by the Company in the event of breach by Executive, by injunctions and restraining orders.

(d) REASONABLE RESTRAINT. In agreeing to the period of non-competition as set forth herein, Executive acknowledges that he has had the opportunity to speak with counsel of his choice in connection with the force and effect of this waiver, and that he is aware that he is waiving rights under California law to contest the imposition of a non-competition agreement. In agreeing to be bound hereby, Executive is accepting the consideration extended to him in exchange for a knowing waiver of his rights, and as full and complete consideration for this waiver, and acknowledges the adequacy of such consideration. Both parties agree that Executive's agreement to this term constitutes a substantial and material term to the Company, without which the Company would not enter into this Agreement or extend this offer of employment to Executive. Executive agrees that the Company may seek and secure an injunction against Executive in order to enforce the terms hereof in the event that Executive breaches this provision. Executive acknowledges that the scope of the non-competition clause is reasonable in scope and will not preclude him from seeking gainful employment in alternative fields. To the extent that any court of competent jurisdiction determines that the non-competition provisions are unreasonable, it is the intent of the parties to enforce the terms hereof to the full extent held reasonable.

(e) SEPARATE COVENANTS. The covenants in this paragraph 4 are severable and separate, and the unenforceability of any specific covenant shall not affect the provisions of any other covenant. Moreover, in the event any court of competent jurisdiction shall determine that the scope, time, or territorial restrictions set forth are unreasonable, then it is the intention of the parties that such restrictions be enforced to the fullest extent that the court deems reasonable, and the Agreement shall thereby be reformed.

(f) INDEPENDENT AGREEMENT. Except as otherwise provided herein, all of the covenants in this paragraph 4 shall be construed as an agreement independent of any other provision in this Agreement, and the existence of any claim or cause of action of Executive against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of such covenants. It is specifically agreed that the period following termination of employment stated at the beginning of this paragraph 4, during which the agreements and covenants of Executive made in this paragraph 4 shall be effective, shall be computed by excluding from such computation any time during which Executive is in violation of any provision of this paragraph 4.

5. TERM; TERMINATION; RIGHTS ON TERMINATION.

(a) TERM. The term of Executive's employment under this Agreement shall be the Employment Period as defined above.

(b) TERMINATION. Executive's employment under this Agreement may be terminated in any one of the followings ways:

(i) DEATH OF EXECUTIVE. The employment of Executive shall terminate immediately upon Executive's death provided that the Company shall, for a period of twelve (12) months following such death, pay to the estate of Executive an amount equal to Executive's base salary and continue the welfare benefit programs contemplated by paragraph 3(d), including paying all premiums for coverage for Executive's dependent family members under all health, hospitalization, disability, dental, life, and other insurance plans that the Company maintained at the time of Executive's death.

(ii) DISABILITY OF EXECUTIVE. If, as a result of incapacity due to physical or mental illness or injury, Executive shall have been absent from Executive's full-time duties hereunder for six (6) consecutive months, then thirty (30) days after giving written notice to Executive (which notice may occur before or after the end of such six (6) month period, but which shall not be effective earlier than the last day of such six (6) month period), the Company may terminate Executive's employment provided Executive is unable to resume Executive's full-time duties at the conclusion of such notice period. Also, Executive may terminate Executive's employment if Executive's health should become impaired to an extent that makes the continued performance of Executive's duties hereunder hazardous to Executive's physical or mental health or Executive's life, provided that Executive shall have furnished the Company with a written statement from a qualified doctor to such effect and provided, further, that, at the Company's request made within ten (10) days of the date of such written statement, Executive shall submit to an examination by a doctor selected by the Company who is reasonably acceptable to Executive or Executive's doctor and such doctor shall have concurred in the conclusion of Executive's doctor. In the event Executive's employment under this Agreement is terminated as a result of Executive's disability, Executive shall receive from the Company, in a lump-sum payment due within ten (10) days of the effective date of such termination, an amount equal to the greater of two (2) times (1) the average of the base salary and bonus paid to Executive for the two (2) prior full fiscal years prior to such termination or (2) Executive's base salary and Targeted Bonus for the fiscal year during which such termination occurs. The disability benefits

provided for in this Agreement are independent of any disability insurance benefits that Executive receives.

(iii) TERMINATION BY THE COMPANY FOR GOOD CAUSE. The Company may terminate Executive's employment upon ten (10) days prior written notice to Executive for "Good Cause," which shall mean any one or more of the following: (A) Executive's willful, material, and irreparable breach of this Agreement; (B) Executive's gross negligence in the performance or intentional nonperformance (continuing for thirty (30) days after receipt of written notice of need to cure) of any of Executive's material duties and responsibilities hereunder; (C) Executive's willful dishonesty, fraud, or misconduct with respect to the business or affairs of the Company, which materially and adversely affects the operations or reputation of the Company; (D) Executive's indictment for, conviction of, or guilty plea to a felony crime involving dishonesty or moral turpitude whether or not relating to the Company; or (E) a confirmed positive illegal drug test result. In the event of a termination by the Company for Good Cause, Executive shall have no right to any severance compensation.

(iv) TERMINATION BY THE COMPANY WITHOUT GOOD CAUSE OR BY EXECUTIVE WITH GOOD REASON. The Company may terminate Executive's employment without Good Cause during the Employment Period upon the approval of a majority of the members of the Board, excluding Executive if Executive is a member of the Board. Executive may terminate Executive's employment under this Agreement for Good Reason upon ten (10) days prior notice to the Company.

(A) RESULT OF TERMINATION BY THE COMPANY WITHOUT GOOD CAUSE OR BY EXECUTIVE WITH GOOD REASON. Should the Company terminate Executive's employment without Good Cause or should Executive terminate Executive's employment with Good Reason during the Employment Period, the Company shall pay to Executive for one (1) year after such termination, on such dates as would otherwise be paid by the Company, a pro rata amount based on the greater of two (2) times (1) the average of the base salary and bonus paid to Executive for the two (2) prior full fiscal years prior to such termination or (2) Executive's base salary and Targeted Bonus for the fiscal year during which such termination occurs. Further, if the Company terminates Executive's employment without Good Cause or Executive terminates Executive's employment with Good Reason, (1) the Company shall continue the insurance coverage as specified in paragraph 3(d) or provide comparable coverage by way of making the family medical insurance premium payments contemplated by COBRA or otherwise, in any case for a period of two (2) years after such termination; (2) the Company shall maintain life insurance coverage, comparable to that provided immediately prior to termination, for a period of two (2) years thereafter with the beneficiary designated by Executive; and (3) Executive shall be entitled to receive all other accrued but unpaid benefits relating to vacations and other executive perquisites as provided in paragraphs 3(d) and 3(g) through Executive's last day of employment.

(B) DEFINITION OF GOOD REASON. Executive shall have "Good Reason" to terminate Executive's employment upon the occurrence of any of the following events without Executive's prior written approval: (1) Executive is demoted by means of a reduction in authority, responsibilities, or duties as provided herein; (2) Executive's annual base salary for a fiscal year as determined pursuant to paragraph 3(a) is reduced or Executive's

Targeted Bonus is reduced other than as contemplated by paragraph 3(b); (3) Executive is required to render his or her primary employment services from a location more than 50 miles from the Company's headquarters as of the time the Executive began his or her employment with the Company; (4) the Company breaches a material provision of this Agreement; or (5) the Company fails to obtain the assumption of this Agreement by any successor or assign of the Company or its principal business activities. For purposes of this Section 5(b)(iv)(B), any good faith determination of "Good Reason" made by the Executive shall be conclusive. Anything in this Agreement to the contrary notwithstanding, a termination by the Executive for any reason during the 30-day period immediately following the first anniversary of the Effective Date shall be deemed to be a termination for Good Reason for all purposes of this Agreement.

(v) RESIGNATION BY EXECUTIVE WITHOUT GOOD REASON. Executive may, without cause, and without Good Reason terminate Executive's own employment under this Agreement, effective thirty (30) days after written notice is provided to the Company or such earlier time as any such resignation may be accepted by the Company. If Executive resigns or otherwise terminates Executive's employment without Good Reason, Executive shall receive no severance compensation.

(vi) CHANGE IN CONTROL OF THE COMPANY.

(A) EFFECTIVE DATE OF CHANGE IN CONTROL. For purposes of applying paragraph 5 hereof, the effective date of Change in Control will be the closing date of the transaction giving rise to the Change in Control and all compensation, reimbursements, and lump-sum payments due Executive must be paid in full by the Company promptly following Executive's election to terminate Executive's employment following such Change in Control.

(B) EFFECT ON STOCK OPTIONS. In the event of a Change of Control, fifty percent (50%) of all unvested stock options held by Executive shall vest on the Effective Date and the balance of such unvested options shall vest as of the day immediately preceding any termination of Executive's employment by the Company without Good Cause or by Executive for Good Reason provided that any options granted prior to the date hereof that included specific provisions regarding accelerated vesting shall be unchanged. In addition, any vested stock options (including those vested as a result of this paragraph) held by Executive shall be exercisable during the full term of the stock options in the event of a Change of Control.

(c) PAYMENTS TO TERMINATION DATE. Upon termination of Executive's employment under this Agreement for any reason provided above, Executive shall be entitled to receive all compensation earned and all benefits and reimbursements due through the effective date of termination. Additional compensation subsequent to termination, if any, will be due and payable to Executive only to the extent and in the manner expressly provided above. All other rights and obligations of the Company and Executive under this Agreement shall cease as of the effective date of termination, except that the Company's obligations under paragraph 9 (relating to indemnification of Executive) and Executive's obligations under paragraph 4 (relating to non-competition and non-solicitation, as applicable), paragraph 6 (relating to return of Company property), paragraph 7 (relating to inventions), paragraph 8 (relating to trade secrets), and

paragraph 10 (relating to prior agreements) shall survive such termination in accordance with their terms.

(d) FAILURE TO PAY EXECUTIVE. If termination of Executive's employment arises out of the Company's failure to pay Executive on a timely basis the amounts to which Executive is entitled under this Agreement or as a result of any other breach of this Agreement by the Company, as determined by a court of competent jurisdiction or pursuant to the provisions of paragraph 15, the Company shall pay all amounts and damages to which Executive may be entitled as a result of such breach, including interest thereon and all reasonable legal fees and expenses and other costs incurred by Executive to enforce Executive's rights hereunder. Further, none of the provisions of paragraph 4 (relating to non-competition) shall apply in the event Executive's employment under this Agreement is terminated as a result of a breach by the Company.

6. RETURN OF COMPANY PROPERTY. All records, designs, patents, business plans, financial statements, manuals, memoranda, lists, and other property delivered to or compiled by Executive by or on behalf of the Company (or its subsidiaries) or its representatives, vendors, or customers that pertain to the business of the Company (or its subsidiaries) shall be and remain the property of the Company and be subject at all times to its discretion and control. Likewise, all correspondence, reports, records, charts, advertising materials, and other similar data pertaining to the business, activities, or future plans of the Company (or its subsidiaries) that is collected by Executive shall be delivered promptly to the Company without request by it upon termination of Executive's employment.

7. INVENTIONS. Executive shall disclose promptly to the Company any and all significant conceptions and ideas for inventions, improvements, and valuable discoveries, whether patentable or not, which are conceived or made by Executive, solely or jointly with another, during the period of employment, and which are directly related to the business or activities of the Company (or its subsidiaries), and which Executive conceives as a result of Executive's employment by the Company. Executive hereby assigns and agrees to assign all Executive's interests therein to the Company or its nominee. Whenever requested to do so by the Company, Executive shall execute any and all applications, assignments, and other instruments that the Company shall deem necessary to apply for and obtain Letters Patent of the United States or any foreign country or to otherwise protect the Company's interest therein.

8. TRADE SECRETS. Executive agrees that Executive will not, during or after the period of employment under this Agreement, disclose the specific terms of the Company's relationships or agreements with its respective significant vendors or customers, or any other significant and material trade secret of the Company, whether in existence or proposed, to any person, firm, partnership, corporation, or business for any reason or purpose whatsoever.

9. INDEMNIFICATION. In the event Executive is made a party to any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative (other than an action by the Company against Executive), by reason of the fact that Executive is or was performing services under this Agreement, then the Company shall indemnify Executive against all expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement, as actually and reasonably incurred by Executive in

connection therewith to the maximum extent permitted by applicable law. The advancement of expenses shall be mandatory. In the event that both Executive and the Company are made a party to the same third-party action, complaint, suit, or proceeding, the Company agrees to engage competent legal representation, and Executive agrees to use the same representation, provided that if counsel selected by the Company shall have a conflict of interest that prevents such counsel from representing Executive, Executive may engage separate counsel and the Company shall pay all attorneys' fees of such separate counsel. Further, while Executive is expected at all times to use Executive's best efforts to faithfully discharge Executive's duties under this Agreement, Executive cannot be held liable to the Company for errors or omissions made in good faith if Executive has not exhibited gross, willful, and wanton negligence and misconduct or performed criminal and fraudulent acts that materially damage the business of the Company. Notwithstanding this paragraph 9, the provision of any written indemnification agreement applicable to the directors and officers of the Company to which Executive shall be a party shall apply rather than this paragraph 9 to the extent inconsistent with this paragraph 9. Without limiting the foregoing, the Company shall continue to maintain coverage for Executive under any directors' and officers' liability insurance policies for a period of six (6) years following any termination of Executive's employment by the Company without Good Cause or by Executive with Good Reason.

10. NO PRIOR AGREEMENTS. Executive hereby represents and warrants to the Company that the execution of this Agreement by Executive and Executive's employment by the Company and the performance of Executive's duties hereunder will not violate or be a breach of any agreement with a former employer, client, or any other person or entity. Further, Executive agrees to indemnify the Company for any claim, including, but not limited to, attorneys' fees and expenses of investigation, by any such third party that such third party may now have or may hereafter come to have against the Company based upon or arising out of any non-competition, invention, or secrecy agreement between Executive and such third party that was in existence as of the date of this Agreement.

11. ASSIGNMENT; BINDING EFFECT. Executive understands that Executive is being employed by the Company on the basis of Executive's personal qualifications, experience, and skills. Executive agrees, therefore, Executive cannot assign all or any portion of Executive's performance under this Agreement. Subject to the preceding two (2) sentences and the express provisions of paragraph 12 below, this Agreement shall be binding upon, inure to the benefit of and be enforceable by the parties hereto and their respective heirs, legal representatives, successors, and assigns.

12. COMPLETE AGREEMENT. This Agreement is not a promise of future employment. Except as specifically provided herein, Executive has no oral representations, understandings, or agreements with the Company or any of its officers, directors, or representatives covering the same subject matter as this Agreement. This written Agreement is the final, complete, and exclusive statement and expression of the agreement between the Company and Executive and of all the terms of this Agreement, and it cannot be varied, contradicted, or supplemented by evidence of any prior or contemporaneous oral or written agreements. This written Agreement may not be later modified except by a further writing signed by a duly authorized officer of the Company and Executive, and no term of this Agreement may be waived except by writing signed by the party waiving the benefit of such

term. This Agreement hereby supersedes any other employment agreements or understandings, written or oral, between the Company and Executive.

13. NOTICE. Whenever any notice is required hereunder, it shall be given in writing addressed as follows:

To the Company:	2381 Bering Drive San Jose, California 95131 Attention: Corporate Secretary
To Executive:	2381 Bering Drive San Jose, California 95131
In either case with a	Greenberg Traurig, LLP

copy to: 2375 East Camelback Road
Suite 700
Phoenix, Arizona 85016
Attention: Robert S. Kant,
Esq.

Notice shall be deemed given and effective on the earlier of three (3) days after the deposit in the U.S. mail of a writing addressed as above and sent first class mail, certified, return receipt requested, or when actually received. Either party may change the address for notice by notifying the other party of such change in accordance with this paragraph 13.

14. SEVERABILITY; HEADINGS. If any portion of this Agreement is held invalid or inoperative, the other portions of this Agreement shall be deemed valid and operative and, so far as is reasonable and possible, effect shall be given to the intent manifested by the portion held invalid or inoperative. The paragraph headings herein are for reference purposes only and are not intended in any way to describe, interpret, define or limit the extent or intent of the Agreement or of any part hereof.

15. MEDIATION ARBITRATION. All disputes arising out of this Agreement shall be resolved as set forth in this paragraph 15. If any party hereto desires to make any claim arising out of this Agreement ("Claimant"), then such party shall first deliver to the other party ("Respondent") written notice ("Claim Notice") of Claimant's intent to make such claim explaining Claimant's reasons for such claim in sufficient detail for Respondent to respond. Respondent shall have ten (10) business days from the date the Claim Notice was given to Respondent to object in writing to the claim ("Notice of Objection"), or otherwise cure any breach hereof alleged in the Claim Notice. Any Notice of Objection shall specify with particularity the reasons for such objection. Following receipt of the Notice of Objection, if any, Claimant and Respondent shall immediately seek to resolve by good faith negotiations the dispute alleged in the Claim Notice, and may at the request of either party, utilize the services of an independent mediator. If Claimant and Respondent are unable to resolve the dispute in writing within ten (10) business days from the date negotiations began, then without the necessity of further agreement of Claimant or Respondent, the dispute set forth in the Claim Notice shall be submitted to binding arbitration (except for claims arising out of paragraphs 3 or 7 hereof), initiated by either Claimant or Respondent pursuant to this paragraph. Such arbitration

shall be conducted before a panel of three (3) arbitrators in San Jose, California, in accordance with the National Rules for the Resolution of Employment Disputes of the American Arbitration Association ("AAA") then in effect provided that the parties may agree to use arbitrators other than those provided by the AAA. The arbitrators shall not have the authority to add to, detract from, or modify any provision hereof. The arbitrators shall have the authority to order all remedies otherwise available in a civil court, including, without limitation, back-pay, severance compensation, vesting of options (or cash compensation in lieu of vesting of options), reimbursement of costs, including those incurred to enforce this Agreement, and interest thereon in the event the arbitrators determine that Executive was terminated without Good Cause, as defined herein, or that the Company has otherwise materially breached this Agreement. A decision by a majority of the arbitration panel shall be final and binding. The arbitration shall be conducted consistent with all applicable law, and the arbitration award shall be in writing, in a form capable of review if required by applicable law. Judgment may be entered on the arbitrators' award in any court having jurisdiction. The direct expense of any mediation or arbitration proceeding and, to the extent Executive prevails, all reasonable legal fees shall be borne by the Company.

16. NO PARTICIPATION IN SEVERANCE PLANS. Except as contemplated by this Agreement, Executive acknowledges and agrees that the compensation and other benefits set forth in this Agreement are and shall be in lieu of any compensation or other benefits that may otherwise be payable to or on behalf of Executive pursuant to the terms of any severance pay arrangement of the Company or any affiliate thereof, or any other similar arrangement of the Company or any affiliates thereof providing for benefits upon involuntary termination of employment.

17. GOVERNING LAW. This Agreement shall in all respects

be construed according to the laws of the state of California, notwithstanding the conflict of laws provisions of such state.

18. COUNTERPARTS; FACSIMILE. This Agreement may be executed by facsimile and in two (2) or more counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

SYNAPTICS INCORPORATED

By: /s/ Russell J. Knittel

Name: Russell J. Knittel

Title: SVP and CFO

EXECUTIVE:

/s/ Francis F. Lee

Francis F. Lee

EXHIBIT 10.20

FORM OF CHANGE OF CONTROL SEVERANCE AGREEMENT

CHANGE OF CONTROL SEVERANCE AGREEMENT (this "Agreement"), by and between SYNAPTICS INCORPORATED, a Delaware corporation (the "Company"), and _____________ ("Executive") is entered into as of the _____ day of ___________, _______.

RECITALS

A. The Company is engaged primarily in the business of the development and supply of custom-designed user interface solutions that enable people to interact more easily and intuitively with a wide variety of mobile computing and communications devices (collectively, the "Business").

B. Executive currently serves as a Senior Vice President of the Company.

C. The Board of Directors of the Company (the "Board") has determined that it is in the best interests of the Company and its stockholders to assure that the Company will have the continued dedication of Executive despite the possibility, threat, or occurrence of a Change of Control (as defined below) of the Company.

D. The Board believes it is imperative to diminish the inevitable distraction of Executive by virtue of the personal uncertainties and risks created by a pending or threatened Change of Control, to encourage Executive's full attention and dedication to the Company currently and in the event of any threatened or pending Change of Control, and to provide the Executive with compensation arrangements upon a Change of Control that afford Executive with a requisite amount of individual financial security and are competitive with those of other corporations. In order to accomplish these objectives, the Board has caused the Company to enter into this Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual promises, terms, covenants, and conditions set forth herein and the performance of each, it is hereby agreed as follows:

1. CERTAIN DEFINITIONS.

(a) EFFECTIVE DATE. The "Effective Date" shall be the first date during the "Change of Control Period" (as defined below) on which a Change of Control occurs.

(b) CHANGE OF CONTROL PERIOD. The "Change of Control Period" is the period commencing on the date hereof and ending on the first anniversary of such date; provided, however, that the Change of Control Period shall extend automatically for an additional day at the end of each day during the Change of Control Period so that the Change of Control Period is always the shorter of one (1) year or Executive's Normal Retirement Date.

(c) CHANGE OF CONTROL. For the purpose of this Agreement, a "Change of Control" shall mean:

(i) CHANGE OF CONTROL. A "Change in Control" shall mean a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended, or if Item 6(e) is no longer in effect, any regulations issued by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, which serve similar purposes; provided further that, without limitation, a Change in Control shall be deemed to have occurred if and when:

(ii) TURNOVER OF BOARD. The following individuals no longer constitute a majority of the members of the Board: (A) the individuals who, as of the date of this Agreement constitute the Board (the "Current Directors"); (B) the individuals who thereafter are elected to the Board and whose election, or nomination for election, to the Board was approved by a vote of all of the Current Directors then still in office (such directors becoming "Additional Directors" immediately following their election); and (C) the individuals who are elected to the Board and whose election, or nomination for election, to the Board was approved by a vote of all of the Current Directors and Additional Directors then still in office (such directors also becoming "Additional Directors" immediately following their election);

(iii) TENDER OFFER. A tender offer or exchange offer is made whereby the effect of such offer is to take over and control the Company, and such offer is consummated for the equity securities of the Company representing twenty percent (20%) or more of the combined voting power of the Company's then outstanding voting securities;

(iv) MERGER OR CONSOLIDATION. The stockholders of the Company shall approve a merger, consolidation, recapitalization, or reorganization of the Company, a reverse stock split of outstanding voting securities, or consummation of any such transaction if stockholder approval is not obtained, other than any such transaction that would result in at least 75% of the total voting power represented by the voting securities of the surviving entity outstanding immediately after such transaction being beneficially owned by the holders of outstanding voting securities of the Company immediately prior to the transaction, with the voting power of each such continuing holder relative to other such continuing holders not substantially altered in the transaction;

(v) LIQUIDATION OR SALE OF ASSETS. The stockholders of the Company shall approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or a substantial portion of the Company's assets to another person, which is not a wholly owned subsidiary of the Company (i.e., 50% or more of the total assets of the Company); or

(vi) STOCKHOLDINGS. Any "person" (as that term is used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under that act), directly or indirectly of more than twenty percent (20%) of the total voting power represented by the Company's then outstanding voting Securities.

2. EMPLOYMENT AND DUTIES.

(a) EMPLOYMENT. The Company hereby agrees to continue Executive in its employ, and the Executive hereby agrees to remain in the employ of the Company, for the period commencing on the Effective Date and ending on the first anniversary of the Effective Date (the "Employment Period"); provided, however, that the Employment Period shall extend automatically for an additional day at the end of each day during the Employment Period on the same terms and conditions contained herein as in effect as of the time of each extension, without taking into account any modifications that are not agreed to by Executive, so that the Employment Period is always one (1) year until termination as provided herein. Executive agrees to devote Executive's best efforts and, subject to paragraph 2(d) hereof, substantially all of Executive's business time and attention to promote and further the business of the Company.

(b) POSITION AND DUTIES. During the Employment Period, Executive's position (including status, offices, titles, and reporting requirements), authority, duties, and responsibilities shall be at least commensurate in all material respects with the most significant of those held, exercised, and assigned at any time during the 180-day period immediately preceding the Effective Date.

(c) POLICIES. Executive shall faithfully adhere to, execute, and fulfill all lawful policies established by the Company.

(d) OTHER ACTIVITIES. Executive shall not, during the Employment Period, be engaged in any other business activity pursued for gain, profit, or other pecuniary advantage if such activity interferes in any material respect with Executive's duties and responsibilities hereunder. The foregoing limitations shall not be construed as prohibiting Executive from (i) making personal investments in such form or manner as will neither require Executive's services in the operation or affairs of the companies or enterprises in which such investments are made nor subject Executive to any conflict of interest with respect to Executive's duties to the Company; (ii) serving on any civic or charitable boards or committees; (iii) delivering lectures or fulfilling speaking engagements; or (iii) serving, with the written approval of the Board, as a director of one or more public corporations, in each case so long as any such activities do not significantly interfere with the performance of Executive's responsibilities under this Agreement.

(e) PLACE OF PERFORMANCE. Executive shall not be required by the Company or by the performance of Executive's duties under this Agreement either to perform Executive's principal duties at a work location more than fifty (50) miles from the Company's current principal executive offices.

3. COMPENSATION. For all services rendered by Executive, the Company shall compensate Executive as follows:

(a) BASE SALARY. During the Employment Period, Executive shall receive a base salary ("Base Salary") at a monthly rate at least equal to the monthly base salary paid or payable to Executive by the Company on the Effective Date. During the Employment Period, the Base Salary shall be reviewed at least annually and shall be increased at any time and

from time to time as shall be substantially consistent with increases in base salary awarded in the ordinary course of business to other key executives of the Company and its subsidiaries. Any increase in Base Salary shall not serve to limit or reduce any other obligation to Executive under this Agreement. Base Salary shall not be reduced after any such increase.

(b) ANNUAL BONUS. In addition to Base Salary, Executive shall be eligible to receive a bonus or other incentive compensation as may be determined by the Board or a committee of the Board based upon such factors as the Board or such committee, in its sole discretion, may deem relevant, including, without limitation, the performance of Executive and the Company; provided, however, that the Board or a committee of the Board shall establish for each fiscal year of the Company either (i) a bonus program in which Executive shall be entitled to participate, which provides Executive with a reasonable opportunity, based on the past compensation practices of the Company and Executive's then base salary, to maintain or increase Executive's total compensation compared to the previous fiscal year or (ii) a targeted bonus based on such factors as the Board may determine (the "Targeted Bonus"). Notwithstanding the foregoing, Executive shall be awarded, for each fiscal year during the Employment Period, an annual bonus (an "Annual Bonus") either pursuant to any then-established incentive compensation plan(s) of the Company or otherwise, in cash at least equal to the highest bonus payable to Executive by the Company and its subsidiaries in respect of any of the two fiscal years immediately preceding the fiscal year in which the Effective Date occurs. Nothing in this Agreement shall require the payment of an Annual Bonus prior to the Effective Date.

(c) INCENTIVE, SAVINGS, AND RETIREMENT PLANS. In addition to Base Salary and Annual Bonus payable as above provided, Executive shall be entitled to participate during the Employment Period in all incentive, savings, and retirement plans, practices, policies and programs applicable to other key executives of the Company (including its successors or assigns) and its affiliates, in each case comparable to those in effect on the Effective Date or as subsequently amended. Such plans, practices, policies, and programs, in the aggregate, shall provide Executive with compensation, benefits, and reward opportunities at least as favorable as the most favorable of such compensation, benefits and reward opportunities provided by the Company for Executive under such plans, practices, policies, and programs as in effect at any time during the 180-day period immediately preceding the Effective Date or, if more favorable to Executive, as provided at any time thereafter with respect to other key executives.

(d) WELFARE BENEFIT PLANS. During the Employment Period, Executive and/or Executive's family who are qualified to participate, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies, and programs provided by the Company and its subsidiaries (including, without limitation, medical, prescription, dental, disability, salary continuance, employee life, group life, accidental death, and travel accident insurance plans and programs), at least as favorable as the most favorable of such plans, practices, policies, and programs in effect at any time during the 180-day period immediately preceding the Effective Date or, if more favorable to Executive and/or Executive's family, as in effect at any time thereafter with respect to other key executives.

(e) EXPENSES. During the Employment Period, Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by Executive in connection with the business of the Company in accordance with the most favorable policies,

practices, and procedures of the Company and its subsidiaries in effect at any time during the 180-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect at any time thereafter with respect to other key executives.

(f) OFFICE AND SUPPORT STAFF. During the Employment Period, Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to secretarial and other assistance, at least equal to the most favorable of the foregoing provided to Executive by the Company and its subsidiaries at any time during the 180-day period immediately preceding the Effective Date or, if more favorable to Executive, as provided at any time thereafter with respect to other key executives of the Company and its subsidiaries.

(g) VACATION. During the Employment Period, Executive shall be entitled to paid vacation in accordance with the most favorable plans, policies, programs and practices of the Company and its subsidiaries as in effect at any time during the 180-day period immediately preceding the Effective Date or, if more favorable to Executive, as in effect at any time thereafter with respect to other key executives of the Company and its subsidiaries.

4. NON-COMPETITION AGREEMENT.

(a) NON-COMPETITION. Notwithstanding the provisions of California law, including, without limitation, Bus. & Prof. Code Secs. 16600 et. seq. and 17200 et. sec., the parties agree that, during Employment Period, and for a period for which severance payments are being made by the Company to Executive in accordance with this Agreement, Executive shall not, directly or indirectly, for himself or on behalf of or in conjunction with any other person:

(i) OTHER ACTIVITIES. Engage, as an officer, director, shareholder, owner, principal, partner, lender, joint venturer, employee, independent contractor, consultant, advisor, or sales representative, in any Competitive Business within the Restricted Territory, provided that the ownership of less than 3% of a company shall not be deemed a violation of this provision;

(ii) SOLICITATION OF EMPLOYEES. Call upon any person who is, at that time, within the Restricted Territory, an employee of the Company or any of its subsidiaries, in a managerial or supervisory capacity for the purpose or with the intent of enticing such employee away from or out of the employ of the Company or any of its subsidiaries;

(iii) SOLICITATION OF CUSTOMERS. Call upon any person who is, at that time, or who has been, within one (1) year prior to that time, a customer of the Company or any of its subsidiaries, within the Restricted Territory for the purpose of soliciting or selling products or services in direct competition with the Company or any of its subsidiaries within the Restricted Territory;

(iv) SOLICITATION OF ACQUISITION CANDIDATES. Call upon any prospective acquisition candidate, on Executive's own behalf or on behalf of any person, which candidate was, to Executive's knowledge after due inquiry, either called upon by the Company, or for which the Company made an acquisition analysis, for the purpose of acquiring such candidate.

(b) CERTAIN DEFINITIONS. As used in this Agreement, the following terms shall have the meanings ascribed to them:

(i) COMPETITIVE BUSINESS shall mean any person that engages in a business the same as, similar to, or in direct competition with the Business;

(ii) PERSON shall mean any individual, corporation, limited liability company, partnership, firm, or other business of whatever nature;

(iii) RESTRICTED TERRITORY shall mean any jurisdiction in which the Company or any subsidiary of the Company maintains any facilities, sells any products, or provides any services; and

(iv) SUBSIDIARY shall mean the Company's consolidated subsidiaries, including corporations, partnerships, limited liability companies, and any other business organization in which the Company holds at least a fifty percent (50%) equity interest.

(c) ENFORCEMENT. Because of the difficulty of measuring economic losses to the Company as a result of a breach of the foregoing covenants in this paragraph 4, and because of the immediate and irreparable damage that could be caused to the Company for which it would have no other adequate remedy, Executive agrees that the foregoing covenants may be enforced by the Company in the event of breach by Executive, by injunctions and restraining orders.

(d) REASONABLE RESTRAINT. In agreeing to the period of non-competition as set forth herein, Executive acknowledges that he has had the opportunity to speak with counsel of his choice in connection with the force and effect of this waiver, and that he is aware that he is waiving rights under California law to contest the imposition of a non-competition agreement. In agreeing to be bound hereby, Executive is accepting the consideration extended to him in exchange for a knowing waiver of his rights, and as full and complete consideration for this waiver, and acknowledges the adequacy of such consideration. Both parties agree that Executive's agreement to this term constitutes a substantial and material term to the Company, without which the Company would not enter into this Agreement or extend this offer of employment to Executive. Executive agrees that the Company may seek and secure an injunction against Executive in order to enforce the terms hereof in the event that Executive breaches this provision. Executive acknowledges that the scope of the non-competition clause is reasonable in scope and will not preclude him from seeking gainful employment in alternative fields. To the extent that any court of competent jurisdiction determines that the non-competition provisions are unreasonable, it is the intent of the parties to enforce the terms hereof to the full extent held reasonable.

(e) SEPARATE COVENANTS. The covenants in this paragraph 4 are severable and separate, and the unenforceability of any specific covenant shall not affect the provisions of any other covenant. Moreover, in the event any court of competent jurisdiction shall determine that the scope, time, or territorial restrictions set forth are unreasonable, then it is the intention of the parties that such restrictions be enforced to the fullest extent that the court deems reasonable, and the Agreement shall thereby be reformed.

(f) INDEPENDENT AGREEMENT. Except as otherwise provided herein, all of the covenants in this paragraph 4 shall be construed as an agreement independent of any other provision in this Agreement, and the existence of any claim or cause of action of Executive against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of such covenants. It is specifically agreed that the period following termination of employment stated at the beginning of this paragraph 4, during which the agreements and covenants of Executive made in this paragraph 4 shall be effective, shall be computed by excluding from such computation any time during which Executive is in violation of any provision of this paragraph 4.

5. TERM; TERMINATION; RIGHTS ON TERMINATION.

(a) TERM. The term of Executive's employment under this Agreement shall be the Employment Period as defined above.

(b) TERMINATION. Executive's employment under this Agreement may be terminated in any one of the followings ways:

(i) DEATH OF EXECUTIVE. The employment of Executive shall terminate immediately upon Executive's death provided that the Company shall, for a period of twelve (12) months following such death, pay to the estate of Executive an amount equal to Executive's base salary and continue the welfare benefit programs contemplated by paragraph 3(d), including paying all premiums for coverage for Executive's dependent family members under all health, hospitalization, disability, dental, life, and other insurance plans that the Company maintained at the time of Executive's death.

(ii) DISABILITY OF EXECUTIVE. If, as a result of incapacity due to physical or mental illness or injury, Executive shall have been absent from Executive's full-time duties hereunder for six (6) consecutive months, then thirty (30) days after giving written notice to Executive (which notice may occur before or after the end of such six (6) month period, but which shall not be effective earlier than the last day of such six (6) month period), the Company may terminate Executive's employment provided Executive is unable to resume Executive's full-time duties at the conclusion of such notice period. Also, Executive may terminate Executive's employment if Executive's health should become impaired to an extent that makes the continued performance of Executive's duties hereunder hazardous to Executive's physical or mental health or Executive's life, provided that Executive shall have furnished the Company with a written statement from a qualified doctor to such effect and provided, further, that, at the Company's request made within ten (10) days of the date of such written statement, Executive shall submit to an examination by a doctor selected by the Company who is reasonably acceptable to Executive or Executive's doctor and such doctor shall have concurred in the conclusion of Executive's doctor. In the event Executive's employment under this Agreement is terminated as a result of Executive's disability, Executive shall receive from the Company, in a lump-sum payment due within ten (10) days of the effective date of such termination, an amount equal to the greater of (1) the average of the base salary and bonus paid to Executive for the two (2) prior full fiscal years prior to such termination or (2) Executive's base salary and Targeted Bonus for the fiscal year during which such termination occurs. The disability benefits provided for in this Agreement are independent of any disability insurance benefits that Executive receives.

(iii) TERMINATION BY THE COMPANY FOR GOOD CAUSE. The Company may terminate Executive's employment upon ten (10) days prior written notice to Executive for "Good Cause," which shall mean any one or more of the following: (A) Executive's willful, material, and irreparable breach of this Agreement; (B) Executive's gross negligence in the performance or intentional nonperformance (continuing for thirty (30) days after receipt of written notice of need to cure) of any of Executive's material duties and responsibilities hereunder; (C) Executive's willful dishonesty, fraud, or misconduct with respect to the business or affairs of the Company, which materially and adversely affects the operations or reputation of the Company; (D) Executive's indictment for, conviction of, or guilty plea to a felony crime involving dishonesty or moral turpitude whether or not relating to the Company; or (E) a confirmed positive illegal drug test result. In the event of a termination by the Company for Good Cause, Executive shall have no right to any severance compensation.

(iv) TERMINATION BY THE COMPANY WITHOUT GOOD CAUSE OR BY EXECUTIVE WITH GOOD REASON. The Company may terminate Executive's employment without Good Cause during the Employment Period upon the approval of a majority of the members of the Board, excluding Executive if Executive is a member of the Board. Executive may terminate Executive's employment under this Agreement for Good Reason upon ten (10) days prior notice to the Company.

(A) RESULT OF TERMINATION BY THE COMPANY WITHOUT GOOD CAUSE OR BY EXECUTIVE WITH GOOD REASON. Should the Company terminate Executive's employment without Good Cause or should Executive terminate Executive's employment with Good Reason during the Employment Period, the Company shall pay to Executive for one (1) year after such termination, on such dates as would otherwise be paid by the Company, a pro rata amount based on the greater of (1) the average of the base salary and bonus paid to Executive for the two (2) prior full fiscal years prior to such termination or (2) Executive's base salary and Targeted Bonus for the fiscal year during which such termination occurs. Further, if the Company terminates Executive's employment without Good Cause or Executive terminates Executive's employment with Good Reason, (1) the Company shall continue the insurance coverage as specified in paragraph 3(d) or provide comparable coverage by way of making the family medical insurance premium payments contemplated by COBRA or otherwise, in any case for a period of one (1) year after such termination; (2) the Company shall maintain life insurance coverage, comparable to that provided immediately prior to termination, for a period of one (1) year thereafter with the beneficiary designated by Executive; and (3) Executive shall be entitled to receive all other accrued but unpaid benefits relating to vacations and other executive perquisites as provided in paragraphs 3(d) and 3(g) through Executive's last day of employment.

(B) DEFINITION OF GOOD REASON. Executive shall have "Good Reason" to terminate Executive's employment upon the occurrence of any of the following events without Executive's prior written approval: (1) Executive is demoted by means of a reduction in authority, responsibilities, or duties as provided herein; (2) Executive's annual base salary for a fiscal year as determined pursuant to paragraph 3(a) is reduced or Executive's Targeted Bonus is reduced other than as contemplated by paragraph 3(b); (3) Executive is required to render his or her primary employment services from a location more than 50 miles from the Company's headquarters at the time Executive began his or her employment with the Company; (4) the Company breaches a material provision of this Agreement; or (5) the

Company fails to obtain the assumption of this Agreement by any successor or assign of the Company or its principal business activities. For purposes of this Section 5(b)(iv)(B), any good faith determination of "Good Reason" made by the Executive shall be conclusive. Anything in this Agreement to the contrary notwithstanding, a termination by the Executive for any reason during the 30-day period immediately following the first anniversary of the Effective Date shall be deemed to be a termination for Good Reason for all purposes of this Agreement.

(v) RESIGNATION BY EXECUTIVE WITHOUT GOOD REASON. Executive may, without cause, and without Good Reason terminate Executive's own employment under this Agreement, effective thirty (30) days after written notice is provided to the Company or such earlier time as any such resignation may be accepted by the Company. If Executive resigns or otherwise terminates Executive's employment without Good Reason, Executive shall receive no severance compensation.

(vi) CHANGE IN CONTROL OF THE COMPANY.

(A) EFFECTIVE DATE OF CHANGE IN CONTROL. For purposes of applying paragraph 5 hereof, the effective date of Change in Control will be the closing date of the transaction giving rise to the Change in Control and all compensation, reimbursements, and lump-sum payments due Executive must be paid in full by the Company promptly following Executive's election to terminate Executive's employment following such Change in Control.

(B) EFFECT ON STOCK OPTIONS. In the event of a Change of Control, fifty percent (50%) of all unvested stock options held by Executive shall vest on the Effective Date and the balance of such unvested options shall vest as of the day immediately preceding any termination of Executive's employment by the Company without Good Cause or by Executive for Good Reason provided that any options granted prior to the date hereof that included specific provisions regarding accelerated vesting shall be unchanged. In addition, any vested stock options (including those vested as a result of this paragraph) held by Executive shall be exercisable during the full term of the stock options in the event of a Change of Control.

(c) PAYMENTS TO TERMINATION DATE. Upon termination of Executive's employment under this Agreement for any reason provided above, Executive shall be entitled to receive all compensation earned and all benefits and reimbursements due through the effective date of termination. Additional compensation subsequent to termination, if any, will be due and payable to Executive only to the extent and in the manner expressly provided above. All other rights and obligations of the Company and Executive under this Agreement shall cease as of the effective date of termination, except that the Company's obligations under paragraph 9 (relating to indemnification of Executive) and Executive's obligations under paragraph 4 (relating to non-competition and non-solicitation, as applicable), paragraph 6 (relating to return of Company property), paragraph 7 (relating to inventions), paragraph 8 (relating to trade secrets), and paragraph 10 (relating to prior agreements) shall survive such termination in accordance with their terms.

(d) FAILURE TO PAY EXECUTIVE. If termination of Executive's employment arises out of the Company's failure to pay Executive on a timely basis the amounts

to which Executive is entitled under this Agreement or as a result of any other breach of this Agreement by the Company, as determined by a court of competent jurisdiction or pursuant to the provisions of paragraph 15, the Company shall pay all amounts and damages to which Executive may be entitled as a result of such breach, including interest thereon and all reasonable legal fees and expenses and other costs incurred by Executive to enforce Executive's rights hereunder. Further, none of the provisions of paragraph 4 (relating to non-competition) shall apply in the event Executive's employment under this Agreement is terminated as a result of a breach by the Company.

6. RETURN OF COMPANY PROPERTY. All records, designs, patents, business plans, financial statements, manuals, memoranda, lists, and other property delivered to or compiled by Executive by or on behalf of the Company (or its subsidiaries) or its representatives, vendors, or customers that pertain to the business of the Company (or its subsidiaries) shall be and remain the property of the Company and be subject at all times to its discretion and control. Likewise, all correspondence, reports, records, charts, advertising materials, and other similar data pertaining to the business, activities, or future plans of the Company (or its subsidiaries) that is collected by Executive shall be delivered promptly to the Company without request by it upon termination of Executive's employment.

7. INVENTIONS. Executive shall disclose promptly to the Company any and all significant conceptions and ideas for inventions, improvements, and valuable discoveries, whether patentable or not, which are conceived or made by Executive, solely or jointly with another, during the period of employment, and which are directly related to the business or activities of the Company (or its subsidiaries), and which Executive conceives as a result of Executive's employment by the Company. Executive hereby assigns and agrees to assign all Executive's interests therein to the Company or its nominee. Whenever requested to do so by the Company, Executive shall execute any and all applications, assignments, and other instruments that the Company shall deem necessary to apply for and obtain Letters Patent of the United States or any foreign country or to otherwise protect the Company's interest therein.

8. TRADE SECRETS. Executive agrees that Executive will not, during or after the period of employment under this Agreement, disclose the specific terms of the Company's relationships or agreements with its respective significant vendors or customers, or any other significant and material trade secret of the Company, whether in existence or proposed, to any person, firm, partnership, corporation, or business for any reason or purpose whatsoever.

9. INDEMNIFICATION. In the event Executive is made a party to any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative (other than an action by the Company against Executive), by reason of the fact that Executive is or was performing services under this Agreement, then the Company shall indemnify Executive against all expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement, as actually and reasonably incurred by Executive in connection therewith to the maximum extent permitted by applicable law. The advancement of expenses shall be mandatory. In the event that both Executive and the Company are made a party to the same third-party action, complaint, suit, or proceeding, the Company agrees to engage competent legal representation, and Executive agrees to use the same representation, provided that if counsel selected by the Company shall have a conflict of interest that prevents

such counsel from representing Executive, Executive may engage separate counsel and the Company shall pay all attorneys' fees of such separate counsel. Further, while Executive is expected at all times to use Executive's best efforts to faithfully discharge Executive's duties under this Agreement, Executive cannot be held liable to the Company for errors or omissions made in good faith if Executive has not exhibited gross, willful, and wanton negligence and misconduct or performed criminal and fraudulent acts that materially damage the business of the Company. Notwithstanding this paragraph 9, the provision of any written indemnification agreement applicable to the directors and officers of the Company to which Executive shall be a party shall apply rather than this paragraph 9 to the extent inconsistent with this paragraph 9. Without limiting the foregoing, the Company shall continue to maintain coverage for Executive under any directors' and officers' liability insurance policies for a period of six (6) years following any termination of Executive's employment by the Company without Good Cause or by Executive with Good Reason.

10. NO PRIOR AGREEMENTS. Executive hereby represents and warrants to the Company that the execution of this Agreement by Executive and Executive's employment by the Company and the performance of Executive's duties hereunder will not violate or be a breach of any agreement with a former employer, client, or any other person or entity. Further, Executive agrees to indemnify the Company for any claim, including, but not limited to, attorneys' fees and expenses of investigation, by any such third party that such third party may now have or may hereafter come to have against the Company based upon or arising out of any non-competition, invention, or secrecy agreement between Executive and such third party that was in existence as of the date of this Agreement.

11. ASSIGNMENT; BINDING EFFECT. Executive understands that Executive is being employed by the Company on the basis of Executive's personal qualifications, experience, and skills. Executive agrees, therefore, Executive cannot assign all or any portion of Executive's performance under this Agreement. Subject to the preceding two (2) sentences and the express provisions of paragraph 12 below, this Agreement shall be binding upon, inure to the benefit of and be enforceable by the parties hereto and their respective heirs, legal representatives, successors, and assigns.

12. COMPLETE AGREEMENT. This Agreement is not a promise of future employment. Except as specifically provided herein, Executive has no oral representations, understandings, or agreements with the Company or any of its officers, directors, or representatives covering the same subject matter as this Agreement. This written Agreement is the final, complete, and exclusive statement and expression of the agreement between the Company and Executive and of all the terms of this Agreement, and it cannot be varied, contradicted, or supplemented by evidence of any prior or contemporaneous oral or written agreements. This written Agreement may not be later modified except by a further writing signed by a duly authorized officer of the Company and Executive, and no term of this Agreement may be waived except by writing signed by the party waiving the benefit of such term. This Agreement hereby supersedes any other employment agreements or understandings, written or oral, between the Company and Executive.

13. NOTICE. Whenever any notice is required hereunder, it shall be given in writing addressed as follows:

To the Company:	2381 Bering Drive San Jose, California 95131 Attention: CEO
To Executive:	2381 Bering Drive San Jose, California 95131
In either case with a copy to:	Greenberg Traurig, LLP 2375 East Camelback Road Suite 700 Phoenix, Arizona 85016 Attention: Robert S. Kant, Esq.

Notice shall be deemed given and effective on the earlier of three (3) days after the deposit in the U.S. mail of a writing addressed as above and sent first class mail, certified, return receipt requested, or when actually received. Either party may change the address for notice by notifying the other party of such change in accordance with this paragraph 13.

14. SEVERABILITY; HEADINGS. If any portion of this Agreement is held invalid or inoperative, the other portions of this Agreement shall be deemed valid and operative and, so far as is reasonable and possible, effect shall be given to the intent manifested by the portion held invalid or inoperative. The paragraph headings herein are for reference purposes only and are not intended in any way to describe, interpret, define or limit the extent or intent of the Agreement or of any part hereof.

15. MEDIATION ARBITRATION. All disputes arising out of this Agreement shall be resolved as set forth in this paragraph 15. If any party hereto desires to make any claim arising out of this Agreement ("Claimant"), then such party shall first deliver to the other party ("Respondent") written notice ("Claim Notice") of Claimant's intent to make such claim explaining Claimant's reasons for such claim in sufficient detail for Respondent to respond. Respondent shall have ten (10) business days from the date the Claim Notice was given to Respondent to object in writing to the claim ("Notice of Objection"), or otherwise cure any breach hereof alleged in the Claim Notice. Any Notice of Objection shall specify with particularity the reasons for such objection. Following receipt of the Notice of Objection, if any, Claimant and Respondent shall immediately seek to resolve by good faith negotiations the dispute alleged in the Claim Notice, and may at the request of either party, utilize the services of an independent mediator. If Claimant and Respondent are unable to resolve the dispute in writing within ten (10) business days from the date negotiations began, then without the necessity of further agreement of Claimant or Respondent, the dispute set forth in the Claim Notice shall be submitted to binding arbitration (except for claims arising out of paragraphs 3 or 7 hereof), initiated by either Claimant or Respondent pursuant to this paragraph. Such arbitration shall be conducted before a panel of three (3) arbitrators in San Jose, California, in accordance with the National Rules for the Resolution of Employment Disputes of the American Arbitration Association ("AAA") then in effect provided that the parties may agree to use arbitrators other than those provided by the AAA. The arbitrators shall not have the authority to add to, detract from, or modify any provision hereof. The arbitrators shall have the authority to order all remedies otherwise available in a civil court, including, without limitation, back-pay, severance

compensation, vesting of options (or cash compensation in lieu of vesting of options), reimbursement of costs, including those incurred to enforce this Agreement, and interest thereon in the event the arbitrators determine that Executive was terminated without Good Cause, as defined herein, or that the Company has otherwise materially breached this Agreement. A decision by a majority of the arbitration panel shall be final and binding. The arbitration shall be conducted consistent with all applicable law, and the arbitration award shall be in writing, in a form capable of review if required by applicable law. Judgment may be entered on the arbitrators' award in any court having jurisdiction. The direct expense of any mediation or arbitration proceeding and, to the extent Executive prevails, all reasonable legal fees shall be borne by the Company.

16. NO PARTICIPATION IN SEVERANCE PLANS. Except as contemplated by this Agreement, Executive acknowledges and agrees that the compensation and other benefits set forth in this Agreement are and shall be in lieu of any compensation or other benefits that may otherwise be payable to or on behalf of Executive pursuant to the terms of any severance pay arrangement of the Company or any affiliate thereof, or any other similar arrangement of the Company or any affiliates thereof providing for benefits upon involuntary termination of employment.

17. GOVERNING LAW. This Agreement shall in all respects be construed according to the laws of the state of California, notwithstanding the conflict of laws provisions of such state.

18. COUNTERPARTS; FACSIMILE. This Agreement may be executed by facsimile and in two (2) or more counterparts, each of which shall

be deemed an original and all of which together shall constitute but one and the same instrument.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

SYNAPTICS INCORPORATED

By: _________________________________

Name: _______________________________

Title: ______________________________

EXECUTIVE:

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EXHIBIT 21

SUBSIDIARIES

NAME	STATE OR JURISDICTION OF ORGANIZATION
Synaptics International, Inc	California
Synaptics (UK) Limited	United Kingdom
Synaptics Hong Kong Limited	Hong Kong

EXHIBIT 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-81820) pertaining to the Amended and Restated 2001 Incentive Compensation Plan, the Registration Statement (Form S-8 No. 333-82288) pertaining to the 1986 Incentive Stock Option Plan and the 1996 Stock Option Plan, the Registration Statement (Form S-8 No. 333-82286) pertaining to the 2000 Nonstatutory Stock Option Plan, the Registration Statement (Form S-8 No. 333-82282) pertaining to the Amended and Restated 2001 Employee Stock Purchase Plan, the Registration Statement (Form S-8 No. 333-99529) pertaining to the Amended and Restated 2001 Incentive Compensation Plan, and the Registration Statement (Form S-8 No. 333-99531) pertaining to the Corrected Amended and Restated 2001 Employee Stock Purchase Plan of our report dated July 26, 2002 with respect to the consolidated financial statements and schedule of Synaptics Incorporated as of June 30, 2002 and for each of the two years in the period then ended included in the Annual Report (Form 10-K) for the year ended June 30, 2003.

/s/ Ernst & Young LLP

San Jose, California
September 10, 2003

EXHIBIT 23.2

INDEPENDENT AUDITOR'S CONSENT

The Board of Directors
Synaptics Incorporated:

We consent to the incorporation by reference in the registration statements (Nos. 333-81820, 333-82288, 333-82286, 333-82282, 333-99529 and 333-99531) on Form S-8 of Synaptics Incorporated of our report dated July 29, 2003, with respect to the consolidated balance sheet of Synaptics Incorporated as of June 30, 2003, and the related statements of operations, stockholders' equity and comprehensive income, and cash flows for the year then ended and the related financial statement schedule, which report appears in the June 30, 2003 annual report on Form 10-K of Synaptics Incorporated.

/s/ KPMG LLP

Mountain View, California
September 10, 2003

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Francis F. Lee, certify that:

1. I have reviewed this annual report on Form 10-K 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)) 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) 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

   c) 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: September 12, 2003

/s/ Francis F. Lee

Francis F. Lee
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Russell J. Knittel, certify that:

1. I have reviewed this annual report on Form 10-K 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)) 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) 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

    c) 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: September 12, 2003

/s/ Russell J. Knittel

Russell J. Knittel
Senior Vice President, Chief Financial Officer,
Chief Administrative Officer,
Secretary and Treasurer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Synaptics Incorporated (the "Company") for the year ended June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Francis F. Lee, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 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/ Francis F. Lee

Francis F. Lee
President and Chief Executive Officer
September 12, 2003

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Synaptics Incorporated (the "Company") for the year ended June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Russell J. Knittel, Senior Vice President, Chief Financial Officer, Chief Administrative Officer, Secretary, and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 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/ Russell J. Knittel

Russell J. Knittel
Senior Vice President, Chief Financial Officer,
Chief Administrative Officer,
Secretary, and Treasurer
September 12, 2003