

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

**FORM 10-Q**

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

For the quarterly period ended December 24, 2022

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-49602

**SYNAPTICS INCORPORATED**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**77-0118518**  
(I.R.S. Employer  
Identification No.)

**1109 McKay Drive**  
**San Jose, California 95131**  
(Address of principal executive offices) (Zip code)

**(408) 904-1100**  
(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$.001 per share	SYNA	The Nasdaq Global Select Market

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of January 26, 2023, the Company had 39,395,760 shares of Common Stock outstanding.

SYNAPTICS INCORPORATED  
QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTER ENDED DECEMBER 24, 2022

TABLE OF CONTENTS

	<u>Page</u>
<u>Part I. Financial Information</u>	
Item 1. <u>Condensed Consolidated Financial Statements (Unaudited):</u>	
<u>Condensed Consolidated Balance Sheets—December 24, 2022 and June 25, 2022</u>	3
<u>Condensed Consolidated Statements of Income—Three and Six Months Ended December 24, 2022 and December 25, 2021</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income—Three and Six Months Ended December 24, 2022 and December 25, 2021</u>	5
<u>Condensed Consolidated Statements of Stockholders' Equity—Three and Six Months Ended December 24, 2022 and December 25, 2021</u>	6
<u>Condensed Consolidated Statements of Cash Flows—Six Months Ended December 24, 2022 and December 25, 2021</u>	8
<u>Notes to Condensed Consolidated Financial Statements</u>	9
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	34
Item 4. <u>Controls and Procedures</u>	34
<u>Part II. Other Information</u>	
Item 1. <u>Legal Proceedings</u>	35
Item 1A. <u>Risk Factors</u>	35
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	35
Item 6. <u>Exhibits</u>	36
<u>Signatures</u>	37

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PART I—FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**SYNAPTICS INCORPORATED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(in millions, except par value and share amounts)  
(unaudited)

	December 2022	June 2022
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 818.8	\$ 824.0
Short-term investments	40.1	52.0
Accounts receivable, net	255.0	322.1
Inventories, net	177.5	169.7
Prepaid expenses and other current assets	32.6	35.6
Total current assets	1,324.0	1,403.4
Property and equipment at cost, net of accumulated depreciation of \$128.7 and \$122.8 at December 2022 and June 2022, respectively	65.9	62.9
Goodwill	816.4	806.6
Acquired intangibles, net	333.7	390.0
Right-of-use assets	53.0	61.2
Non-current other assets	132.3	134.0
	<u>\$ 2,725.3</u>	<u>\$ 2,858.1</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 82.7	\$ 141.8
Accrued compensation	37.2	90.6
Income taxes payable	60.3	79.7
Other accrued liabilities	113.1	145.3
Current portion of long-term debt	6.0	6.0
Total current liabilities	299.3	463.4
Long-term debt	973.9	975.7
Other long-term liabilities	151.7	152.6
Total liabilities	1,424.9	1,591.7
Stockholders' Equity:		
Common stock:		
\$0.001 par value; 120,000,000 shares authorized, 68,459,485 and 67,745,800 shares issued, and 39,581,687 and 39,621,179 shares outstanding, at December 2022 and June 2022, respectively	0.1	0.1
Additional paid-in capital	945.7	924.1
Treasury stock: 28,877,798 and 28,124,621 common shares at December 2022 and June 2022, respectively, at cost	(769.0)	(694.5)
Accumulated other comprehensive loss	(1.5)	(1.8)
Retained earnings	1,125.1	1,038.5
Total stockholders' equity	1,300.4	1,266.4
	<u>\$ 2,725.3</u>	<u>\$ 2,858.1</u>

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

**SYNAPTICS INCORPORATED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(in millions, except per share data)  
(unaudited)

	Three Months Ended December		Six Months Ended December	
	2022	2021	2022	2021
Net revenue	\$ 353.1	\$ 420.5	\$ 801.2	\$ 793.2
Cost of revenue	166.4	195.4	358.8	370.0
Gross margin	186.7	225.1	442.4	423.2
Operating expenses:				
Research and development	89.3	88.9	178.8	175.0
Selling, general, and administrative	42.4	44.3	87.1	85.9
Acquired intangibles amortization	8.9	9.2	18.4	17.6
Restructuring costs	-	5.1	-	6.5
Total operating expenses	140.6	147.5	284.3	285.0
Operating income	46.1	77.6	158.1	138.2
Interest and other expense, net	(6.7)	(5.7)	(15.0)	(11.6)
Loss on redemption of convertible notes	-	-	-	(8.1)
Income before provision for income taxes and equity investment loss	39.4	71.9	143.1	118.5
Provision for income taxes	17.4	2.0	56.5	7.9
Equity investment loss	-	0.4	-	0.9
Net income	\$ 22.0	\$ 69.5	\$ 86.6	\$ 109.7
Net income per share:				
Basic	\$ 0.55	\$ 1.76	\$ 2.18	\$ 2.85
Diluted	\$ 0.55	\$ 1.71	\$ 2.14	\$ 2.70
Shares used in computing net income:				
Basic	39.8	39.4	39.8	38.5
Diluted	40.2	40.7	40.5	40.7

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

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>December</b>		<b>December</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Net income	\$ 22.0	\$ 69.5	\$ 86.6	\$ 109.7
Other comprehensive income (loss), net of tax				
Unrealized income (loss) on available-for-sale-securities	0.4	(0.1)	0.3	(0.1)
Comprehensive income	<u>\$ 22.4</u>	<u>\$ 69.4</u>	<u>\$ 86.9</u>	<u>\$ 109.6</u>

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

**SYNAPTICS INCORPORATED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in millions, except share amounts)  
(unaudited)

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Treasury Stock</u>	<u>Accumulated Other Comprehensive loss</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>					
Balance at June 2022	67,745,800	\$ 0.1	\$ 924.1	\$ (694.5)	\$ (1.8)	\$ 1,038.5	\$ 1,266.4
Net income	—	—	—	—	—	64.6	64.6
Other comprehensive loss	—	—	—	—	(0.1)	—	(0.1)
Issuance of common stock for share-based award compensation plans	483,713	—	8.5	—	—	—	8.5
Payroll taxes for deferred stock units	—	—	(31.4)	—	—	—	(31.4)
Common stock repurchased	—	—	—	(13.4)	—	—	(13.4)
Share-based compensation	—	—	30.5	—	—	—	30.5
Balance at September 2022	68,229,513	0.1	931.7	(707.9)	(1.9)	1,103.1	1,325.1
Net income	—	—	—	—	—	22.0	22.0
Other comprehensive income	—	—	—	—	0.4	—	0.4
Issuance of common stock for share-based award compensation plans	229,972	—	0.3	—	—	—	0.3
Payroll taxes for deferred stock units	—	—	(17.7)	—	—	—	(17.7)
Common stock repurchased	—	—	—	(61.1)	—	—	(61.1)
Share-based compensation	—	—	31.4	—	—	—	31.4
Balance at December 2022	<u>68,459,485</u>	<u>\$ 0.1</u>	<u>\$ 945.7</u>	<u>\$ (769.0)</u>	<u>\$ (1.5)</u>	<u>\$ 1,125.1</u>	<u>\$ 1,300.4</u>

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

**SYNAPTICS INCORPORATED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in millions, except share amounts)  
(unaudited)

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Treasury Stock</u>	<u>Accumulated Other Comprehensive loss</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>					
Balance at June 2021	66,963,006	\$ 0.1	\$ 1,391.5	\$ (1,205.4)	\$ —	\$ 781.0	\$ 967.2
Net income	—	—	—	—	—	40.2	40.2
Other comprehensive income	—	—	—	—	—	—	—
Issuance of common stock for share-based award compensation plans	384,866	—	7.8	—	—	—	7.8
Payroll taxes for deferred stock units	—	—	(27.7)	—	—	—	(27.7)
Redemption of convertible debt	—	—	(518.2)	510.9	—	—	(7.3)
Share-based compensation	—	—	21.2	—	—	—	21.2
Balance at September 2021	67,347,872	0.1	874.6	(694.5)	—	821.2	1,001.4
Net income	—	—	—	—	—	69.5	69.5
Other comprehensive income	—	—	—	—	(0.1)	—	(0.1)
Issuance of common stock for share-based award compensation plans	295,796	—	0.8	—	—	—	0.8
Payroll taxes for deferred stock units	—	—	(35.8)	—	—	—	(35.8)
Share-based compensation attributable to acquisition	—	—	1.7	—	—	—	1.7
Share-based compensation	—	—	26.4	—	—	—	26.4
Balance at December 2021	<u>67,643,668</u>	<u>\$ 0.1</u>	<u>\$ 867.7</u>	<u>\$ (694.5)</u>	<u>\$ (0.1)</u>	<u>\$ 890.7</u>	<u>\$ 1,063.9</u>

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

**SYNAPTICS INCORPORATED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in millions)  
(unaudited)

	Six Months Ended December	
	2022	2021
<b>Cash flows from operating activities</b>		
Net income	\$ 86.6	\$ 109.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation costs	61.9	47.6
Depreciation and amortization	12.6	11.6
Acquired intangibles amortization	65.2	54.4
Loss on redemption of convertible notes	—	8.1
Deferred taxes	(11.0)	(6.2)
Amortization of right-of-use assets	5.1	5.0
Amortization of debt discount and issuance costs	1.4	2.1
Amortization of cost of development services	5.0	5.0
Provision for inventory excess and obsolescence	(1.1)	(9.0)
Other	0.6	(0.1)
Equity investment loss	—	0.9
Foreign currency remeasurement loss	1.3	0.4
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable, net	69.3	(70.9)
Inventories	(6.7)	(19.7)
Prepaid expenses and other current assets	(1.7)	(12.5)
Other assets	10.2	(5.1)
Accounts payable	(62.1)	29.8
Accrued compensation	(54.2)	(18.9)
Income taxes payable	(6.6)	(6.6)
Other accrued liabilities	(47.3)	55.1
Net cash provided by operating activities	<u>128.5</u>	<u>180.7</u>
<b>Cash flows from investing activities</b>		
Acquisition of businesses, net of cash and cash equivalents acquired	(15.5)	(512.2)
Proceeds from maturities of investments	11.9	0.6
Receipt of liquidation payment on equity investment	0.8	—
Other	0.2	—
Purchase of intangible assets	(0.9)	—
Purchases of property and equipment	(15.3)	(13.2)
Net cash used in investing activities	<u>(18.8)</u>	<u>(524.8)</u>
<b>Cash flows from financing activities</b>		
Payment for redemption of convertible notes	—	(505.6)
Proceeds from term loan	—	600.0
Payment of debt issuance costs	—	(11.2)
Proceeds from issuance of shares	8.8	8.6
Payroll taxes for deferred stock and market stock units	(49.1)	(63.5)
Repurchases of common stock	(74.5)	—
Repayment of debt	(3.0)	—
Refundable deposit paid to vendor	—	(16.6)
Return of deposit received from vendor	2.8	—
Net cash provided by (used in) financing activities	<u>(115.0)</u>	<u>11.7</u>
Effect of exchange rate changes on cash and cash equivalents	0.1	(1.1)
Net decrease in cash and cash equivalents	(5.2)	(333.5)
Cash and cash equivalents, beginning of period	824.0	836.3
Cash and cash equivalents, end of period	<u>\$ 818.8</u>	<u>\$ 502.8</u>
<b>Supplemental disclosures of cash flow information</b>		
Cash paid for taxes, net of refunds	\$ 72.3	\$ 15.8
Cash paid for interest	\$ 21.5	\$ 8.3
<b>Supplemental disclosures of non-cash transactions</b>		
Purchases of property and equipment in current liabilities	\$ 4.9	\$ 6.0

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



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

**1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission, or the SEC, and United States generally accepted accounting principles, or U.S. GAAP. Certain information or footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to SEC rules and regulations. In our opinion, the financial statements include all adjustments, which are of a normal and recurring nature and necessary for the fair presentation of the results of the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the operating results for the full fiscal year or any future period. These financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended June 25, 2022.

The condensed 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. Certain reclassifications have been made to the amounts for prior years in order to conform to the current year's presentation

Our fiscal year is the 52- or 53-week period ending on the last Saturday in June. Our fiscal 2023 and 2022 are 52-week periods ending June 24, 2023 and June 25, 2022, respectively. The fiscal periods presented in this report are 13-week periods ended December 24, 2022, and December 25, 2021, respectively.

*Use of Estimates*

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

*Business Combinations*

On October 25, 2022, we acquired all of the outstanding shares of Emza Visual Sense Ltd., or Emza. Our condensed consolidated financial statements include the operating results of Emza for the period from the date of the closing of the acquisition through the second quarter of fiscal year 2023. We have applied the acquisition method of accounting in accordance with ASC 805 Business Combinations to account for this transaction. Refer to "Note 4. Acquisitions" for further discussion of the transaction.

*Recently Issued Accounting Pronouncement Pending Adoption*

In October 2021, the FASB issued ASU 2021-08, "Business Combinations (Topic 805): Accounting for Acquired Contract Assets and Contract Liabilities" which improves comparability for both the recognition and measurement of acquired revenue contracts with customers at the date of and after a business combination by providing consistent recognition guidance. This standard is effective for fiscal years beginning after December 15, 2022. Early adoption is permitted, including in an interim period, for any period for which financial statements have not yet been issued. However, adoption in an interim period other than the first fiscal quarter requires an entity to apply the new guidance to all prior business combinations that have occurred since the beginning of the annual period in which the new guidance is adopted. We are currently evaluating the timing of adoption and impact, if any, of this new standard on our consolidated financial statements.

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

**2. Revenue Recognition**

We account for revenue using Accounting Standards Codification Topic 606, or ASC 606, Revenue from Contracts with Customers. Revenue is recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to receive in exchange for those goods or services. All of our revenue, except an inconsequential amount, is recognized at a point in time, either on shipment or delivery of the product, depending on customer terms and conditions.

Our accounts receivable balance is from contracts with customers and represents our unconditional right to receive consideration from customers. To date, there have been no material bad debt charges recorded on accounts receivable. There were \$1.3 million and \$1.2 million in contract assets recorded on our condensed consolidated balance sheets as of December 2022 and June 2022, respectively. Contract assets are presented as part of prepaid expenses and other current assets.

Contract liabilities and refund liabilities were \$27.3 million and \$40.8 million, respectively, as of December 2022 and \$27.3 million and \$61.3 million, respectively, as of June 2022. Both contract liabilities and refund liabilities are presented as customer obligations in Note 10 Balance Sheet Components. During the six months ended December 2022 and December 2021, we recognized \$2.8 million and \$3.3 million, respectively, in revenue related to contract liabilities, which was outstanding as of the beginning of each such fiscal year.

Revenue from contracts with customers disaggregated by geographic area based on customer location and product category is presented in Note 15 Segment, Customers, and Geographical Information.

**3. Net Income Per Share**

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

	Three Months Ended		Six Months Ended	
	December		December	
	2022	2021	2022	2021
<b>Numerator:</b>				
Net income	\$ 22.0	\$ 69.5	\$ 86.6	\$ 109.7
<b>Denominator:</b>				
Shares, basic	39.8	39.4	39.8	38.5
Effect of dilutive share-based awards and convertible notes	0.4	1.3	0.7	2.2
Shares, diluted	40.2	40.7	40.5	40.7
<b>Net income per share:</b>				
Basic	\$ 0.55	\$ 1.76	\$ 2.18	\$ 2.85
Diluted	\$ 0.55	\$ 1.71	\$ 2.14	\$ 2.70

Our basic net income per share amounts for each period presented have been computed using the weighted average number of shares of common stock, \$0.001 par value, or the common stock, outstanding over the period measured. Our diluted net income per share amounts for each period presented include the weighted average effect of potentially dilutive shares. We use the "treasury stock" method to determine the dilutive effect of our stock options, restricted stock units, or RSUs, market stock units, or MSUs, performance stock units, or PSUs, and our convertible notes, which were settled in August 2021.

Dilutive net income per share amounts do not include the potential weighted average effect of 1,092,428 and 12,987 shares of common stock related to certain share-based awards that were outstanding during the three months ended December 2022 and December 2021, respectively, and 640,047 and 10,209 shares of common stock related to certain share-based awards that were outstanding during six months ended December 2022 and December 2021, respectively. These share-based awards were not included in the computation of diluted net income per share because their effect would have been antidilutive.

**4. Acquisitions**

On October 25, 2022, we acquired all of the outstanding shares of Emza, a developer of ultra-low-power artificial intelligence visual sensing solutions, for total purchase consideration of \$15.8 million. The purchase price was attributed to \$0.3 million cash acquired, \$8.0 million of intangible assets, \$9.8 million of goodwill and \$2.3

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

million net liabilities assumed. We will continue to evaluate certain assets, liabilities and tax estimates over the measurement period (up to one year from the acquisition date). Goodwill recognized from the acquisition of Emza is not deductible for income tax purposes. Pro forma results of operations for this acquisition has not been presented because they are not material to our consolidated results of operations, either individually or in the aggregate.

**5. Inventories**

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

	December 2022	June 2022
Raw materials and work-in-progress	\$ 84.1	\$ 92.2
Finished goods	93.4	77.5
	<u>\$ 177.5</u>	<u>\$ 169.7</u>

We record a write-down, if necessary, to reduce the carrying value of inventory to its net realizable value. The effect of these write-downs is to establish a new cost basis in the related inventory, which we do not subsequently write up. We also record a liability and charge to cost of revenue for estimated losses on inventory we are obligated to purchase from our contract manufacturers when such losses become probable from customer delays, order cancellations, or other factors. The following factors influence our estimates: changes to or cancellations of customer orders, unexpected or sudden decline in demand, rapid product improvements, technological advances, and termination or changes by our original equipment manufacturers, or OEM, customers of any product offerings incorporating our product solutions.

**6. Cash, Cash Equivalents and Short-Term Investments**

The following table summarizes our cash, cash equivalents and short-term investments by category at December 2022 and June 2022 (in millions):

	December 2022		
	Amortized Cost	Gross unrealized gain (loss)	Fair Value
Cash	\$ 321.4	\$ -	\$ 321.4
Cash equivalents:			
Money market funds	440.0	-	440.0
Certificates of deposit	57.4	-	57.4
Total cash and cash equivalents	<u>\$ 818.8</u>	<u>\$ -</u>	<u>\$ 818.8</u>
Short-term investments:			
Certificates of deposit	\$ 1.1	\$ -	\$ 1.1
Corporate debt securities	35.8	(1.6)	34.2
Municipal bonds	4.9	(0.1)	4.8
Total short-term investments	<u>\$ 41.8</u>	<u>\$ (1.7)</u>	<u>\$ 40.1</u>
	June 2022		
	Amortized Cost	Gross unrealized gain (loss)	Fair Value
Cash	\$ 811.9	\$ -	\$ 811.9
Cash equivalents:			
Money market funds	12.1	-	12.1
Total cash and cash equivalents	<u>\$ 824.0</u>	<u>\$ -</u>	<u>\$ 824.0</u>
Short-term investments:			
Certificates of deposit	\$ 2.4	\$ -	\$ 2.4
Corporate debt securities	43.7	(1.9)	41.8
Municipal bonds	7.9	(0.1)	7.8
Total short-term investments	<u>\$ 54.0</u>	<u>\$ (2.0)</u>	<u>\$ 52.0</u>

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

The following table classifies our short-term investments by contractual maturities (in millions):

	December 2022		June 2022	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within 1 year	\$ 18.5	\$ 18.2	\$ 21.0	\$ 20.4
Due between 1 year to 5 years	23.3	21.9	33.0	31.6
	<u>\$ 41.8</u>	<u>\$ 40.1</u>	<u>\$ 54.0</u>	<u>\$ 52.0</u>

**7. Fair Value Measurements**

We determine fair value based on the fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value assumes that the transaction to sell the asset or transfer the liability occurs in the principal or most advantageous market for the asset or liability and establishes that the fair value of an asset or liability shall be determined based on the assumptions that market participants would use in pricing the asset or liability. The classification of a financial asset or liability within the hierarchy is based upon the lowest level input that is significant to the fair value measurement. The fair value hierarchy prioritizes the inputs into three levels that may be used to measure fair value:

- Level 1 – Valuation is based upon unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 – Valuation is based upon quoted prices for similar assets and liabilities in active markets, or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments.
- Level 3 – Valuation is based upon other unobservable inputs that are significant to the fair value measurements.

Our Level 1 financial instruments are traded in active markets, and the fair value is based on quoted market prices for identical instruments. The fair value of our Level 2 fixed income securities is obtained from an independent pricing service, which may use quoted market prices for identical or comparable instruments or model driven valuations using observable market data or inputs corroborated by observable market data. Our marketable securities are held by custodians who obtain investment prices from a third-party pricing provider that incorporates standard inputs in various asset price models.

At December 2022 and June 2022, financial assets measured at fair value on a recurring basis are summarized below (in millions):

	December 2022			
	Level 1	Level 2	Level 3	Total (1)
<b>Assets:</b>				
<b>Cash equivalents:</b>				
Money market funds	\$ 440.0	\$ -	\$ -	\$ 440.0
Certificates of deposit	-	57.4	-	57.4
<b>Short-term investments:</b>				
Certificates of deposit	-	1.1	-	1.1
Corporate debt securities	-	34.2	-	34.2
Municipal bonds	-	4.8	-	4.8
<b>Total assets</b>	<u>\$ 440.0</u>	<u>\$ 97.5</u>	<u>\$ -</u>	<u>\$ 537.5</u>

(1) Excludes \$321.5 million in cash held in our bank accounts as of December 2022.

	June 2022			
	Level 1	Level 2	Level 3	Total (1)
<b>Assets:</b>				
<b>Cash equivalents:</b>				
Money market funds	\$ 12.1	\$ -	\$ -	\$ 12.1
<b>Short-term investments:</b>				
Certificates of deposit	-	2.4	-	2.4
Corporate debt securities	-	41.8	-	41.8
Municipal bonds	-	7.8	-	7.8
<b>Total assets</b>	<u>\$ 12.1</u>	<u>\$ 52.0</u>	<u>\$ -</u>	<u>\$ 64.1</u>

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

(1) Excludes \$811.9 million in cash held in our bank accounts as of June 2022.

***Financial Instruments Not Recorded at Fair Value on a Recurring Basis***

We report our financial instruments at fair value with the exception of the Senior Notes and Term Loan Facility, as defined in Note 12 Debt. The estimated fair value of the Senior Notes and Term Loan Facility was determined based on the trading price of the Senior Notes and Term Loan Facility as of the last day of trading for the period. We consider the fair value of the Senior Notes and Term Loan Facility to be a Level 2 measurement as they are not actively traded in markets.

The carrying amounts and estimated fair values of the Senior Notes and Term Loan Facility are as follows for the periods presented (in millions):

	December 2022		June 2022	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Senior Notes due 2029	\$ 395.3	\$ 339.0	\$ 395.0	\$ 326.9
Term Loan Facility due 2028	584.6	574.0	586.7	\$ 575.0
	\$ 979.9	\$ 913.0	\$ 981.7	\$ 901.9

**8. Acquired Intangibles and Goodwill**

*Goodwill*

The following table represents the change in our goodwill balance for the six and twelve month periods ended December 2022 and June 2022, respectively (in millions):

	December 2022	June 2022
Beginning balance	\$ 806.6	\$ 570.0
Acquisition activity	9.8	236.6
Ending balance	\$ 816.4	\$ 806.6

*Acquired Intangibles*

The following table summarizes the life, the gross carrying value and the related accumulated amortization of our acquired intangible assets (in millions):

	Weighted Average Life in Years	December 2022			June 2022		
		Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Audio and video technology	5.6	\$ 231.9	\$ (130.3)	\$ 101.6	\$ 232.1	\$ (109.3)	\$ 122.8
Customer relationships	4.1	158.2	(101.4)	56.8	170.5	(99.7)	70.8
Wireless connectivity technology	5.7	128.0	(45.0)	83.0	128.0	(33.8)	94.2
Video interface technology	3.0	82.0	(66.0)	16.0	82.0	(52.4)	29.6
Human presence detection technology	5.0	5.2	(0.2)	5.0	—	—	—
Licensed technology and other	4.4	10.8	(8.5)	2.3	9.9	(7.5)	2.4
Patents	8.0	4.4	(4.0)	0.4	4.4	(3.7)	0.7
Tradename	4.4	5.8	(4.2)	1.6	5.8	(3.3)	2.5
In process research and development	Not applicable	67.0	—	67.0	67.0	—	67.0
Acquired intangibles totals	4.9	\$ 693.3	\$ (359.6)	\$ 333.7	\$ 699.7	\$ (309.7)	\$ 390.0

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

The total amortization expense for the acquired intangible assets was \$32.2 million and \$29.2 million for the three months ended December 2022 and December 2021, respectively, and \$65.2 million and 54.4 million for the six months ended December 2022 and December 2021, respectively.

During the three months ended December 2022 and December 2021, \$23.3 million and \$19.9 million, respectively, and \$46.8 million and \$36.8 million for the six months ended December 2022 and December 2021, respectively, of amortization expense was included in our condensed consolidated statements of income in cost of revenue; the remainder was included in acquired intangibles amortization.

**9. Leases**

Our leases mainly include our worldwide office and research and development facilities which are all classified as operating leases. Certain leases include renewal options that are under our discretion. The leases expire at various dates through fiscal year 2034, some of which include options to extend the lease for up to seven years. For the six months ended December 2022 and December 2021, we recorded approximately \$6.3 million and \$5.7 million, respectively, of operating leases expense. Our short-term leases are immaterial.

As of December 2022 and June 2022, the components of leases are as follows (in millions):

	December 2022	June 2022
Operating lease right-of-use assets	\$ 53.0	\$ 61.2
Operating lease liabilities	\$ 7.8	\$ 7.6
Operating lease liabilities, long-term	45.3	51.5
Total operating lease liabilities	<u>\$ 53.1</u>	<u>\$ 59.1</u>

Supplemental cash flow information related to leases, including from acquisitions, is as follows (in millions):

	Six Months Ended December	
	2022	2021
Cash paid for operating leases included in operating cash flows	\$ 6.2	\$ 5.4
Supplemental non-cash information related to lease liabilities arising from obtaining right-of-use assets	\$ 6.7	\$ 17.6

As of December 2022, the weighted average remaining lease term is 7.5 years, and the weighted average discount rate is 5.1%.

Future minimum lease payments for the operating lease liabilities are as follows (in millions):

Fiscal Year	Operating Lease Payments
Remainder of 2023	\$ 2.5
2024	11.2
2025	9.8
2026	8.3
2027	7.3
Thereafter	26.0
Total future minimum operating lease payments	<u>65.1</u>
Less: interest	(12.0)
Total lease liabilities	<u>\$ 53.1</u>

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

**10. Balance Sheet Components**

Accounts receivable, net, consisted of the following (in millions):

	December 2022	June 2022
Accounts receivable	\$ 261.1	\$ 328.1
Less: Allowance for doubtful accounts	(6.1)	(6.0)
	<u>\$ 255.0</u>	<u>\$ 322.1</u>

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

	December 2022	June 2022
Customer obligations	\$ 68.3	\$ 88.6
Inventory obligations	8.6	14.1
Operating lease liabilities	7.8	7.6
Other	28.4	35.0
	<u>\$ 113.1</u>	<u>\$ 145.3</u>

Other long-term liabilities consisted of the following (in millions):

	December 2022	June 2022
Operating lease liabilities, long-term	\$ 45.3	\$ 51.5
Deferred tax liability	48.1	52.6
Income taxes payable, long-term	41.2	29.1
Other	17.1	19.4
	<u>\$ 151.7</u>	<u>\$ 152.6</u>

**11. Indemnifications and Contingencies**

*Indemnifications*

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

*Contingencies*

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

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

**12. Debt**

*Senior Notes*

On March 11, 2021, we completed an offering of \$400.0 million aggregate principal amount of 4.0% senior notes due 2029, or the Senior Notes, in a private offering. The Senior Notes were issued pursuant to an indenture, dated as of March 11, 2021, or the Indenture, by and among our company, the guarantors named therein and Wells Fargo Bank, National Association, as trustee.

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

The Indenture provides that the Senior Notes will bear interest at a rate of 4.0% per annum, payable in cash semi-annually in arrears on December 15 and June 15 of each year, commencing on June 15, 2021. The Senior Notes will mature on June 15, 2029 and are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by each of our current and future domestic restricted subsidiaries that guarantee our obligations under our senior secured credit facilities.

Prior to June 15, 2024, we may redeem the Senior Notes, in whole or in part, at a redemption price of 100% of the principal amount thereof, plus a make-whole premium set forth in the Indenture, plus accrued and unpaid interest, if any, up to, but excluding, the redemption date.

On or after June 15, 2024, we may redeem some or all of the Senior Notes at the redemption prices specified below, plus accrued and unpaid interest, if any, up to, but excluding, the redemption date:

Year	Price
2024	102 %
2025	101 %
2026 and thereafter	100 %

In addition, at any time prior to June 15, 2024, we may redeem up to 40% of the aggregate principal amount of the Senior Notes at a redemption price equal to 104% of the principal amount thereof, plus accrued and unpaid interest, if any, up to, but excluding, the applicable redemption date with the net cash proceeds from one or more equity offerings by us.

The Senior Notes are the general unsecured obligations of our company. The Senior Note guarantees are the senior unsecured obligations of each guarantor. Under certain circumstances, the guarantors may be released from their Senior Note guarantees without consent of the holders of Senior Notes. Under the terms of the Indenture, the Senior Notes rank equally in right of payment with all of our and the guarantors' existing and future senior indebtedness, and rank contractually senior in right of payment to our and the guarantors' future indebtedness and other obligations that are, by their terms, expressly subordinated in right of payment to the Senior Notes. The Senior Notes are effectively subordinated to our and the guarantors' existing and future secured indebtedness, including secured indebtedness under our senior secured credit facilities, to the extent of the value of the assets securing such indebtedness. The Senior Notes and guarantees are structurally subordinated to all existing and future indebtedness and liabilities (including trade payables) of our subsidiaries that do not guarantee the Senior Notes.

The Indenture contains covenants that, subject to exceptions and qualifications, among other things, limit our ability and the ability of our Restricted Subsidiaries (as defined in the Indenture) to (i) incur additional indebtedness and guarantee indebtedness; (ii) pay dividends or make other distributions or repurchase or redeem our company's or any parent's capital stock; (iii) prepay, redeem or repurchase certain indebtedness; (iv) issue certain preferred stock or similar equity securities; (v) make loans and investments; (vi) dispose of assets; (vii) incur liens; (viii) enter into transactions with affiliates; (ix) enter into agreements restricting its subsidiaries' ability to pay dividends; and (x) consolidate, merge or sell all or substantially all of its assets.

The Indenture contains customary events of default including, without limitation, failure to make required payments, failure to comply with certain agreements or covenants, cross-acceleration to certain other indebtedness in excess of specified amounts, certain events of bankruptcy and insolvency, and failure to pay certain judgments. An event of default under the Indenture will allow either the trustee or the holders of at least 25% in aggregate principal amount of the then outstanding Senior Notes to accelerate, or in certain cases, will automatically cause the acceleration of, the maturity of the principal, and accrued and unpaid interest, if any, on all outstanding Notes.

Debt issuance costs relating to the Senior Notes of \$5.7 million, netted against the debt amount on the condensed consolidated balance sheet, are amortized as interest expense through the maturity date. The total interest expense recorded on the Senior Notes during the three and six months ended December 2022 was \$4.0 million and \$8.0 million, respectively.

*Revolving Credit Facility*

On March 11, 2021, we entered into a Second Amended and Restated Credit Agreement, with the lenders party thereto and Wells Fargo Bank, National Association, as administrative agent, or the Credit Agreement, to, among other changes, extend the maturity date of our senior secured revolving credit facility, to five years from the closing date of the amendment, increase the facility size from \$200.0 million to \$250.0 million, and replace the requirement to maintain a total debt to Consolidated EBITDA (as defined in the Credit Agreement) ratio of not more than 4.75 to 1.00 with a requirement to maintain a net total debt to Consolidated EBITDA ratio of not more than 3.75 to 1.00 provided that for the four fiscal quarters ending after the date of a material acquisition, such maximum leverage ratio shall be adjusted to 4.25 to 1.00, and thereafter 3.75 to 1.00, provided further, that such deemed increase pursuant to the foregoing shall not apply to more than two material acquisitions consummated during the term of the Credit Agreement.



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

The Credit Agreement provides for a revolving credit facility in a principal amount of up to \$250 million, which includes a \$20 million sublimit for letters of credit and a \$25 million sublimit for swingline loans. Under the terms of the Credit Agreement, we may, subject to the satisfaction of certain conditions, request increases in the revolving credit facility commitments in an aggregate principal amount of up to \$150 million to the extent existing or new lenders agree to provide such increased or additional commitments, as applicable. Future proceeds under the revolving credit facility are available for working capital and general corporate purposes. In March 2021 we used a portion of the proceeds from the Senior Notes described above to repay the \$100.0 million outstanding borrowings on this revolving credit facility. As of December 2022, there was no balance outstanding under the revolving credit facility.

Borrowings under the revolving credit facility are required to be repaid in full by March 11, 2026. Debt issuance costs relating to the revolving credit facility of \$1.6 million, included in non-current other assets on our consolidated balance sheet, are being amortized over 60 months.

Our obligations under the Credit Agreement are guaranteed by the material domestic subsidiaries of our company, subject to certain exceptions, who collectively with our company are referred to as the Credit Parties. The obligations of the Credit Parties under the Credit Agreement and the other loan documents delivered in connection therewith are secured by a first priority security interest in substantially all of the existing and future personal property of the Credit Parties, including, without limitation, 65% of the voting capital stock and 100% of the non-voting capital stock of certain of the Credit Parties' direct foreign subsidiaries, subject to certain exceptions.

The revolving credit facility bears interest at our election of a Base Rate plus an Applicable Margin or LIBOR plus an Applicable Margin. Swingline loans bear interest at a Base Rate plus an Applicable Margin. The Base Rate is a floating rate that is the greater of the Prime Rate, the Federal Funds Rate plus 50 basis points, or LIBOR plus 100 basis points. The Applicable Margin is based on a sliding scale which ranges from 0.25 to 100 basis points for Base Rate loans and 100 basis points to 175 basis points for LIBOR loans. We are required to pay a commitment fee on any unused commitments under the Credit Agreement which is determined on a leverage-based sliding scale ranging from 0.175% to 0.25% per annum. Interest and fees are payable on a quarterly basis. The LIBOR index is expected to be discontinued at the end of June 2023. Under our credit facility, when the LIBOR index is discontinued, we will switch to a comparable or successor rate as selected by us and the administrative agent, which may include the Secured Overnight Financing Rate, or SOFR.

Under the Credit Agreement, there are various restrictive covenants, including two financial covenants which limit the consolidated total leverage ratio, or leverage ratio, the consolidated interest coverage ratio, or interest coverage ratio, a restriction that permits accounts receivable financings provided that the aggregate unpaid amount of permitted accounts receivable financings are no more than the greater of \$100 million and 50% of the amount of all accounts receivable of the Company and specified subsidiaries and other specific items. The leverage ratio is the ratio of net debt as of the measurement date to Consolidated EBITDA, for the four consecutive quarters ending with the quarter of measurement. The current leverage ratio shall not exceed 3.75 to 1.00 provided that for the four fiscal quarters ending after the date of a material acquisition, such maximum leverage ratio shall be adjusted to 4.25 to 1.00, and thereafter 3.75 to 1.0. The interest coverage ratio is Consolidated EBITDA to interest expense for the four consecutive quarters ending with the quarter of measurement. The interest coverage ratio must not be less than 3.50 to 1.0 during the term of the Credit Agreement. As of December 2022, we remain in compliance with the restrictive covenants.

#### *Term Loan Facility*

On December 2, 2021, we entered into that certain First Amendment and Lender Joinder Agreement to the Credit Agreement, to, among other things, establish a new \$600.0 million incremental term loan facility, or the Term Loan Facility. The Term Loan Facility was advanced by certain existing and new lenders under the Credit Agreement to finance the DSPG acquisition. The Term Loan Facility matures on December 2, 2028. Principal on the Term Loan Facility is payable in equal quarterly installments on the last day of each March, June, September and December of each year, beginning December 31, 2021, at a rate of 1.00% per annum.

Borrowings under the Term Loan Facility will accrue interest at the London Interbank Offered Rate, or LIBOR, plus 2.25% or at the base rate plus 1.50%, subject to a 25 basis point step-down based on total gross leverage, and subject to a LIBOR floor of 50 basis points. The base rate is the highest of (i) the Federal Funds Rate plus 0.50%, (ii) the Wells Fargo Bank, National Association prime rate and (iii) the one-month LIBOR plus 1.00%. The Term Loan Facility contains customary representations and warranties, affirmative and negative covenants and events of default, in each case consistent with the Credit Agreement. The Term Loan Facility does not contain any financial covenant.

The Term Loan Facility is subject to a 1.00% prepayment premium in the event all or any portion of the Term Loan Facility is prepaid within the first 6 months in connection with a repricing transaction only. The Term Loan Facility is subject to customary mandatory prepayments, including, commencing with the fiscal year ending June 30, 2023, an excess cash flow sweep, subject to customary step-downs and thresholds.

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

Debt issuance costs relating to the Term Loan Facility of \$11.2 million, netted against the debt amount on the condensed consolidated balance sheet, are amortized as interest expense over 96 months. The total interest expense recorded on the Term Loan Facility during the three and six months ended December 2022 was \$7.7 million and \$14.2 million, respectively.

*Convertible Debt*

On June 1, 2021, pursuant to the Indenture, dated as of June 26, 2017 between us and Wells Fargo Bank, National Association, as trustee, or the Convertible Notes Indenture, we provided an irrevocable notice of redemption, for all \$525,000,000 aggregate principal amount of our outstanding 0.50% convertible senior notes due in 2022, or the Convertible Notes. The Convertible Notes were redeemable at a cash redemption price of 100.0% of the principal amount, plus accrued and unpaid interest, if any, to, but excluding, the redemption date of August 4, 2021.

Holders of the Convertible Notes had the right to convert the Convertible Notes called for redemption no later than August 3, 2021, or the Conversion Deadline. The conversion rate was equal to 13.7267 shares per \$1,000 principal amount of the Convertible Notes, which was the initial conversion rate of 13.6947 shares per \$1,000 principal amount of the Convertible Notes plus a number of additional shares equal to 0.0320 shares per \$1,000 principal amount of the Convertible Notes. We elected to settle any conversions by Combination Settlement (as defined in the Convertible Notes Indenture) with a Specified Dollar Amount (as defined in the Convertible Notes Indenture) per \$1,000 principal amount of Convertible Notes equal to \$1,000, plus a number of shares of our common stock, to be determined pursuant to the Convertible Notes Indenture, together with additional cash, if applicable, in lieu of delivering any fractional shares of common stock. As a result of this election, on August 4, 2021, we settled or redeemed the remaining outstanding Convertible Notes for \$505.6 million in cash representing the principal amount outstanding and delivered approximately 3.5 million shares in common stock from our treasury stock for additional amounts, resulting in a loss of approximately \$8.1 million which is included in Interest and other expense, net, on our condensed consolidated statements of income included elsewhere in this report.

**13. Share-Based Compensation**

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

	Three Months Ended		Six Months Ended	
	December		December	
	2022	2021	2022	2021
Cost of revenue	\$ 1.0	\$ 1.3	\$ 2.1	\$ 2.3
Research and development	13.4	18.6	27.4	39.4
Selling, general, and administrative	15.6	16.7	33.1	30.5
Total	<u>\$ 30.0</u>	<u>\$ 36.6</u>	<u>\$ 62.6</u>	<u>\$ 72.2</u>
Income tax benefit on share-based compensation	<u>\$ (4.1)</u>	<u>\$ (11.4)</u>	<u>\$ (7.9)</u>	<u>\$ (16.7)</u>

Included in the preceding table is share-based compensation for our cash-settled phantom stock units, which we granted in October 2019 (see *Phantom Stock Units* below) (in millions):

	Three Months Ended		Six Months Ended	
	December		December	
	2022	2021	2022	2021
Cost of revenue	\$ —	\$ 0.1	\$ -	\$ 0.1
Research and development	(1.2)	8.4	0.3	20.2
Selling, general, and administrative	(0.2)	1.7	0.4	4.3
Total	<u>\$ (1.4)</u>	<u>\$ 10.2</u>	<u>\$ 0.7</u>	<u>\$ 24.6</u>

Historically, we have issued new shares in connection with our equity-settled share-based compensation plans, however, treasury shares are also available for issuance. Any additional shares repurchased under our common stock repurchase program will be available for issuance under our share-based compensation plans.

*Share-Based Compensation Plans*

On October 29, 2019, our stockholders approved: (i) our 2019 Equity and Incentive Compensation Plan, or the 2019 Incentive Plan, to replace our Amended and Restated 2010 Incentive Compensation Plan, or the 2010 Incentive Plan, and (ii) our 2019

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

Employee Stock Purchase Plan, or the 2019 ESPP, to replace our Amended and Restated 2010 Employee Stock Purchase Plan. As of October 29, 2019, no new awards may be granted under the 2010 Incentive Plan or the Amended and Restated 2010 Employee Stock Purchase Plan. Awards outstanding at October 29, 2019 under our prior share-based compensation plans were not impacted by the approval of the 2019 Incentive Plan and continue to remain outstanding and vest by their terms under the applicable share-based compensation plan. Shares underlying certain share-based awards forfeited under the 2010 Incentive Plan subsequent to the approval of the 2019 Incentive Plan automatically transfer to and become available for award issuance from the 2019 Incentive Plan.

The 2019 Incentive Plan authorizes our Board of Directors to provide equity-based compensation in the form of stock options, stock appreciation rights, restricted stock, RSUs, cash incentive awards, performance shares, PSUs, and other stock-based awards. The 2019 Incentive Plan has been amended and restated, and the cumulative number of shares approved by stockholders is 5,288,000 as of October 25, 2022. The 2019 ESPP authorizes the Company to provide eligible employees with an opportunity to acquire an equity interest in the Company through the purchase of stock at a discount, with an initial authorization of 1,500,000 shares.

Effective August 19, 2019, we adopted the 2019 Inducement Equity Plan, and 650,000 shares of our common stock were reserved for issuance under the 2019 Inducement Equity Plan, subject to adjustment for stock dividends, stock splits, or other changes in our common stock or capital structure. The 2019 Inducement Equity Plan was intended to comply with Rule 5635(c)(4) of the Nasdaq Stock Market Listing Rules, which provide an exception to the Nasdaq Stock Market Listing Rules on the shareholder approval requirement for the issuance of securities with regards to grants to employees of the Company or its subsidiaries as an inducement material to such individuals entering into employment with the Company or its subsidiaries. An individual was eligible to receive an award under the 2019 Inducement Equity Plan only if he or she was not previously an employee or director of our Company (or is returning to work after a bona-fide period of non-employment), and an award under the 2019 Inducement Equity Plan is a material inducement for him or her to accept employment with our Company. No new awards may be granted under the 2019 Inducement Equity Plan.

*Stock Options*

Stock option activity was as follows:

	Stock Option Awards Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value (in millions)
Balance as of June 2022	31,185	\$ 61.51	
Exercised	(7,019)	81.50	
Expired	(299)	89.30	
Balance as of December 2022	<u>23,867</u>	55.30	<u>\$ 0.9</u>

The aggregate intrinsic value was determined using the closing price of our common stock on December 23, 2022 of \$94.15.

*Restricted Stock Units*

Our 2019 Incentive Plan provides for the grant of RSUs to our employees, consultants, and directors with initial grants occurring in 2019, and previously our 2019 Inducement Equity Plan and our 2010 Incentive Plan provided for the grant of deferred stock units, or DSUs, to our employees, consultants, and directors with initial grants occurring in 2006. An RSU and a DSU are each a promise to deliver shares of our common stock at a future date in accordance with the terms of the grant agreement and the words can be used interchangeably. Accordingly, any reference to RSU is intended to signify both an RSU and a DSU.

RSUs granted generally vest ratably over three to four years from the vesting commencement date.

RSU activity was as follows:

	RSU Awards Outstanding	Aggregate Intrinsic Value (in millions)
Balance as of June 2022	1,220,573	
Granted	717,776	
Delivered	(484,856)	
Forfeited	(52,122)	
Balance as of December 2022	<u>1,401,371</u>	<u>\$ 131.9</u>

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

The aggregate intrinsic value was determined using the closing price of our common stock on December 23, 2022 of \$94.15.

On the delivery date, we withhold shares to cover statutory tax withholding requirements and deliver a net quantity of shares to the recipient after such withholding. Until delivery of shares, the grantee has no rights as a stockholder with respect to any shares underlying the RSU award. Of the shares delivered, 146,614 shares valued at \$17.7 million were withheld to meet statutory tax withholding requirements.

*Market Stock Units*

Our 2019 Incentive Plan, and previously our 2019 Inducement Equity Plan provide for the grant of MSU awards to our employees, consultants, and directors. An MSU is a promise to deliver shares of our common stock at a future date based on the achievement of market-based performance requirements in accordance with the terms of the MSU grant agreement.

We have granted MSU awards to our executive officers and other management members under our 2010 Incentive Plan, our 2019 Incentive Plan and our 2019 Inducement Equity Plan, which are designed to vest in three or four tranches with the target quantity for each tranche equal to one-third or one-fourth of the total MSU grant. The first tranche vests based on a one-year performance period; the second tranche vests based on a two-year performance period; the third tranche vests based on a three-year performance period; and the fourth tranche (in the case of four-year vesting) vests based on a four-year performance period.

For MSU awards granted in fiscal 2023, performance is measured based on our achievement of a specified level of total stockholder return, or TSR, relative to the TSRs of each company in the Russell 2000 Index. The potential payout ranges from 0% to 300% of the target grant quantity based on our TSR performance relative to the TSRs of each company in the Russell 2000 Index. No payout will occur if our TSR performance falls below the 25th percentile of the TSRs of each company in the Russell 2000 Index, and a 300% payout will occur if our TSR performance exceeds the 80th percentile of the TSRs of each company in the Russell 2000 Index. Performance payouts between the 25th and 80th percentiles will be determined on a linear basis with performance at the 50th percentile equal to 100% of target. The first tranche and the second tranche can payout up to 300%, and the payout for the third tranche will be calculated based on the total target quantity for the entire grant multiplied by the payout factor, based on performance for the three-year performance period, less shares issued for the first tranche and the second tranche.

For MSU awards granted in fiscal 2022 and 2021, performance is measured based on our achievement of a specified level of total stockholder return, or TSR, relative to the TSRs of each company in the Russell 2000 Index. The potential payout ranges from 0% to 200% of the target grant quantity based on our TSR performance relative to the TSRs of each company in the Russell 2000 Index. No payout will occur if our TSR performance falls below the 25th percentile of the TSRs of each company in the Russell 2000 Index, and a 200% payout will occur if our TSR performance exceeds the 75th percentile of the TSRs of each company in the Russell 2000 Index. Performance payouts between the 25th and 75th percentiles will be determined on a linear basis with performance at the 50th percentile equal to 100% of target. The first tranche and the second tranche can payout up to 200%, and the payout for the third tranche will be calculated based on the total target quantity for the entire grant multiplied by the payout factor, based on performance for the three-year performance period, less shares issued for the first tranche and the second tranche.

For outstanding MSU awards granted prior to fiscal 2021, performance is measured based on our achievement of a specified level of TSR relative to the TSR of the S&P Semiconductor Select Industry Index, or SPSISC Index. The potential payout ranges from 0% to 200% of the target grant quantity and is adjusted on a two-to-one ratio based on our TSR performance relative to SPSISC Index TSR. For MSU awards vesting over three years, the payout for the first tranche and the second tranche will not exceed 100% and the payout for the third tranche will be calculated based on the total target quantity for the entire grant multiplied by the payout factor, based on performance for the three-year performance period, less shares issued for the first tranche and the second tranche. For MSUs vesting over four years, the payout for the first tranche, the second tranche and the third tranche will not exceed 100% and the payout for the fourth tranche will be calculated based on the total target quantity for the entire grant multiplied by the payout factor, based on performance for the four-year performance period, less shares issued for the first tranche, the second tranche and the third tranche.

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

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

MSU activity was as follows:

	MSU Awards Outstanding	Aggregate Intrinsic Value (in millions)
Balance as of June 2022	251,974	
Granted	270,342	
Delivered	(304,334)	
Balance as of December 2022	<u>217,982</u>	<u>\$ 20.5</u>

The aggregate intrinsic value was determined using the closing price of our common stock on December 23, 2022 of \$94.15.

On the delivery date, we withhold shares to cover statutory tax withholding requirements and deliver a net quantity of shares to the recipient after such withholding. Until delivery of shares, the grantee has no rights as a stockholder with respect to any shares underlying the MSU award. Of the shares delivered, 159,379 shares valued at \$18.5 million were withheld to meet statutory tax withholding requirements.

We value MSUs using the Monte Carlo simulation model on the date of grant and amortize the compensation expense over the three- or four-year performance and service period on a ratable basis by tranche. The unrecognized share-based compensation cost of our outstanding MSUs was approximately \$33.5 million as of December 2022, which will be recognized over a weighted average period of approximately 1.2 years.

*Performance Stock Units*

Our 2019 Incentive Plan, our 2010 Incentive Plan and our 2019 Inducement Equity Plan provide for the grant of PSU awards to our employees, consultants, and directors. A PSU is a promise to deliver shares of our common stock at a future date based on the achievement of performance-based requirements in accordance with the terms of the PSU grant agreement.

We have granted PSU awards to our executive officers and other key management team members under our 2010 Incentive Plan, our 2019 Incentive Plan and our 2019 Inducement Equity Plan, which, generally, are designed to vest in three tranches with the target quantity for each tranche equal to one-third of the total PSU award. Generally, PSU awards have a specific one-year performance period and vesting occurs over three service periods with the final service period ending approximately three years from the grant date. Performance is measured based on the achievement of a specified level of performance relative to predefined performance criteria (for PSU awards granted in fiscal 2023 and prior to fiscal 2022 the performance criteria is based on non-GAAP earnings per share, for PSU awards granted in fiscal 2021 the performance criteria is based on a combination of our design win revenue, non-GAAP gross margin percentage and non-GAAP operating expenses). For our fiscal 2023 PSU awards, the potential payout ranges from 0% to 200% of the target grant quantity and is adjusted on a linear basis with a payout triggering if our measurement results equals greater than 65% of the target with a maximum payout achieved at 135% of target.

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

PSU activity was as follows:

	PSU Awards Outstanding	Aggregate Intrinsic Value (in millions)
Balance as of June 2022	257,903	
Awarded	265,446	
Released	(250,118)	
Forfeited	(5,359)	
Balance as of December 2022	<u>267,872</u>	<u>\$ 25.2</u>

**SYNAPTICS INCORPORATED AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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The aggregate intrinsic value was determined using the closing price of our common stock on December 23, 2022 of \$94.15.

On the delivery date, we withhold shares to cover statutory tax withholding requirements and deliver a net quantity of shares to the recipient after such withholding. Until delivery of shares, the grantee has no rights as a stockholder with respect to any shares underlying the PSU award. Of the shares delivered, 114,859 shares valued at \$12.9 million were withheld to meet statutory tax withholding requirements.

We value PSUs using the aggregate intrinsic value on the date of grant adjusted for estimated performance achievement during the performance period and amortize the compensation expense over the three-year service period on a ratable basis. The unrecognized share-based compensation cost of our outstanding PSUs was approximately \$46.4 million as of December 2022, which will be recognized over a weighted average period of approximately 1.1 years.

*Phantom Stock Units*

The 2019 Incentive Plan authorizes the grant of phantom stock units to non-employee directors, officers and employees. We initially granted phantom stock units to certain non-officer employees in October 2019 and there have been no subsequent phantom stock unit grants. Phantom stock units are cash-settled and entitle the recipient to receive a cash payment equal to the value of a single share for each unit based on the average closing share price of our stock over the thirty calendar days prior to the vesting date. Grants of phantom stock units vest over three years, with an annual vesting date of October 31 each year subsequent to the grant date. The final vesting occurred on October 31, 2022, and no phantom stock units remain outstanding under this plan.

Phantom stock activity was as follows:

	Phantom Stock Units Outstanding
Balance as of June 2022	176,097
Paid	(173,436)
Forfeited	(2,661)
Balance as of December 2022	-

*Employee Stock Purchase Plan*

Shares purchased, weighted average purchase price, cash received, and the aggregate intrinsic value for employee stock purchase plan purchases during the three and six months ended December 2022 were as follows (in millions, except for shares purchased and weighted average price):

Shares purchased	88,210
Weighted average purchase price	\$ 92.52
Cash received	\$ 9.6
Aggregate intrinsic value	\$ 1.4

**14. Income Taxes**

We account for income taxes under the asset and liability method. The provision for income taxes recorded in interim periods is based on our estimate of the annual effective tax rate applied to year-to-date income before provision for income taxes, adjusted for discrete items required to be recognized in the period in which they are incurred. In each quarter, we update our estimate of the annual effective tax rate, and if the estimated annual tax rate changes, we make a cumulative adjustment in that quarter. Our quarterly tax provision and our quarterly estimate of the annual effective tax rate can be subject to volatility due to several factors, including our ability to accurately forecast annual income before provision for income taxes in each of the tax jurisdictions in which we operate.

The provision for income taxes of \$17.4 million and \$56.5 million for the three and six months ended December 2022, respectively, represented estimated federal, foreign, and state income taxes. The effective tax rate for the three and six months ended December 2022 diverged from the combined U.S. federal and state statutory tax rate primarily due to the impact of tax law changes becoming effective in our fiscal 2023, including non-creditable foreign withholding taxes resulting from the final foreign tax credit regulations published in January 2022 and the research and development capitalization rules increasing our global intangible low-taxed income, or GILTI, resulting from the U.S. Tax Cuts and Jobs Act of 2017, and non-deductible officer compensation, partially offset by the benefit of foreign income taxed at lower rates, and research credits.

**SYNAPTICS INCORPORATED AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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The provision for income taxes of \$2.0 million and \$7.9 million for the three and six months ended December 2021, respectively, represented estimated federal, foreign, and state income taxes. The effective tax rate for the three and six months ended December 2021, diverged from the combined U.S. federal and state statutory tax rate, primarily due to foreign income taxed at lower rates, the benefit of research credits and foreign tax credits, partially offset by foreign withholding taxes, non-deductible officer compensation, non-deductible stock-based compensation, and GILTI.

The total liability for gross unrecognized tax benefits related to uncertain tax positions increased \$21.4 million during the six months ended December 2022, to \$51.2 million, and was included in other long-term liabilities on our condensed consolidated balance sheets. If recognized, the total gross unrecognized tax benefits would reduce the effective tax rate on income from continuing operations. Accrued interest and penalties related to unrecognized tax benefits as of December 2022 were \$2.7 million; this balance increased by \$0.2 million compared to June 2022. We classify interest and penalties as components of income tax expense. Any prospective adjustments to our unrecognized tax benefits will be recorded as an increase or decrease to income tax expense and cause a corresponding change to our effective tax rate. Accordingly, our effective tax rate could fluctuate materially from period to period.

Our major tax jurisdictions are the United States, Hong Kong SAR, Israel, Japan and the United Kingdom. From fiscal 2016 onward, we remain subject to examination by one or more of these jurisdictions.

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

We operate in one segment: the development, marketing, and sale of semiconductor products used in electronic devices and products. We generate our revenue from three broad product categories: the IoT product market, the personal computing, or PC, product market, and the Mobile product market. We sell our products to OEMs and to contract manufacturers that provide manufacturing services to OEMs.

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

	Three Months Ended		Six Months Ended	
	December		December	
	2022	2021	2022	2021
China	\$ 131.7	\$ 142.1	\$ 246.2	\$ 277.2
Taiwan	85.2	127.6	265.9	247.1
Japan	90.8	119.5	197.1	211.1
Other	32.3	16.8	68.9	33.3
South Korea	11.5	10.7	17.1	18.9
United States	1.6	3.8	6.0	5.6
	<u>\$ 353.1</u>	<u>\$ 420.5</u>	<u>\$ 801.2</u>	<u>\$ 793.2</u>

Net revenue from our customers for each product category was as follows (in millions):

	Three Months Ended		Six Months Ended	
	December		December	
	2022	2021	2022	2021
IoT product applications	\$ 239.3	\$ 261.5	\$ 582.0	\$ 467.2
PC product applications	56.5	82.7	121.7	171.3
Mobile product applications	57.3	76.3	97.5	154.7
	<u>\$ 353.1</u>	<u>\$ 420.5</u>	<u>\$ 801.2</u>	<u>\$ 793.2</u>

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

	Three Months Ended		Six Months Ended	
	December		December	
	2022	2021	2022	2021
Customer A	11%	13%	10%	12%
Customer B	*	12%	10%	12%

\* Less than 10%

**SYNAPTICS INCORPORATED AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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We extend credit based on evaluation of a customer's financial condition, and we generally do not require collateral. Major customer accounts receivable as a percentage of total accounts receivable were as follows:

	December 2022	June 2022
Customer A	16%	17%
Customer B	14%	15%

**16. Comprehensive Income**

Our comprehensive income generally consists of unrealized gains or losses on our available-for-sale securities. We recognize foreign currency remeasurement adjustments and foreign currency transaction gains and losses in our condensed consolidated statements of income as the U.S. dollar is the functional currency of our foreign entities.

**17. Restructuring Activities**

In prior years, we initiated various strategic restructuring actions primarily intended to reduce costs, gain synergies from our recent acquisitions and align our business in response to market conditions. Restructuring charges were mainly comprised of severance and other one-time termination benefits and were complete by the end of fiscal year 2022. We recorded restructuring related charges of \$5.1 million and \$6.5 million for the three and six months ended December 2021, respectively. We did not incur any restructuring related charges during the first half of fiscal year 2023.



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

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

This Quarterly Report on Form 10-Q for the quarter ended December 24, 2022 (this “Report”) contains forward-looking statements that are subject to the safe harbors created under the Securities Act of 1933, as amended (the “Securities Act”), and the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business, including our expectations regarding the potential impacts on our business of the COVID-19 pandemic, and can be identified by the fact that they do not relate strictly to historical or current facts. Such forward-looking statements may include words such as “expect,” “anticipate,” “intend,” “believe,” “estimate,” “plan,” “target,” “strategy,” “continue,” “may,” “will,” “should,” variations of such words, or other words and terms of similar meaning. All forward-looking statements reflect our best judgment and are based on several factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control. Such factors include, but are not limited to the following: our dependence on our solutions for the IoT product applications market for a substantial portion of our revenue; risks related to the volatility of our net revenue from our solutions for IoT product applications; our dependence on one or more large customers; our exposure to industry downturns and cyclicity in our target markets; the risk that our product solutions for new markets will not be successful; our ability to maintain and build relationships with our customers; our dependence on third parties to maintain satisfactory manufacturing yields and deliverable schedule; and the risks as identified in the “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business” sections of our Annual Report on Form 10-K for the fiscal year ended June 25, 2022, and other risks as identified from time to time in our SEC reports. Forward-looking statements are based on information available to us on the date hereof, and we do not have, and expressly disclaim, any obligation to publicly release any updates or any changes in our expectations, or any change in events, conditions, or circumstances on which any forward-looking statement is based. Our actual results and the timing of certain events could differ materially from the forward-looking statements. These forward-looking statements do not reflect the potential impact of any mergers, acquisitions, or other business combinations that have not been completed as of the date of this filing.

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

### Impact of COVID-19

Although many of the restrictions and other containment measures implemented by governmental authorities in response to the COVID-19 pandemic have since been lifted or scaled back, ongoing surges of COVID-19 and its variants continue, which may result in a variety of responses in the many geographic locations in which we do business, from no actions taken to the re-imposition of lockdowns and containment measures designed to mitigate or reduce the rapid spread of COVID-19 and its variants.

The health and wellbeing of our workforce is our highest priority, and a large number of our workforce has been vaccinated. Many of our employees that worked from home at the onset of COVID-19, or during subsequent lockdowns, have returned full-time or on a hybrid basis to our office environment. For some of those employees that have returned to the office, we continue to adhere to return to work protocols, based on guidance from local and global health organizations and applicable laws and regulations.

To date, we have not incurred significant disruptions to our business or a materially negative impact on our consolidated results of operations and financial condition from the COVID-19 outbreak and continue to believe our business will not be severely impacted as steps continue to be taken globally to mitigate the spread and vaccinate large portions of the population. However, if more infectious COVID-19 variants become resistant to the existing vaccines, we, our customers, and our suppliers could experience renewed and sustained business disruption.

We will continue to evaluate the impact to our business, consolidated results of operations, and financial condition and may take actions that we deem necessary or appropriate to respond to the ongoing pandemic.

### Overview

We are a leading worldwide developer and fabless supplier of premium mixed signal semiconductor solutions changing the way humans engage with connected devices and data, engineering exceptional experiences throughout the home, at work, in the car and on the go. We believe our results to date reflect the combination of our customer focus and the strength of our intellectual property and our engineering know-how, which allow us to develop or engineer products that meet the demanding design specifications of our Original Equipment Manufacturers, or OEMs.

We recognize revenue when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to receive in exchange for those goods or services. All of our revenue, except an inconsequential amount, is recognized at a point in time, either on shipment or delivery of the product, depending on customer terms and conditions.

Many of our customers have manufacturing operations in China, and many of our OEM customers have established design centers in Asia. With our expanding global presence, including offices in China, France, Germany, Hong Kong, India, Israel, Japan,

Korea, Poland, Switzerland, Taiwan, the U.K., and the U.S., we are well positioned to provide local sales, operational, and engineering support services to our existing customers, as well as potential new customers, on a global basis.

Our manufacturing operations are based on a variable cost model in which we outsource all of our production requirements and generally drop ship our products directly to our customers from our contract manufacturers' facilities, eliminating the need for significant capital expenditures and allowing us to minimize our investment in inventories. This approach requires us to work closely with our contract manufacturers and semiconductor fabricators to ensure adequate production capacity to meet our forecasted volume requirements. In the past, when supply constraints and capacity shortages have impacted the global semiconductor industry, we have entered into long-term capacity and pricing agreements with some suppliers. We use third-party wafer manufacturers to supply wafers and third-party packaging manufacturers to package our proprietary ASICs. In certain cases, we rely on a single source or a limited number of suppliers to provide other key components of our products. Our cost of revenue includes all costs associated with the production of our products, including materials; logistics; amortization of intangibles related to acquired developed technology; backlog; supplier arrangements; manufacturing, assembly, royalties paid to third-party intellectual property providers and test costs paid to third-party manufacturers; and related overhead costs associated with our indirect manufacturing operations personnel. Additionally, we charge all warranty costs, losses on inventory purchase obligations, and the provision for excess and obsolete inventories to cost of revenue.

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

Our research and development expenses include costs for supplies and materials related to product development, as well as the engineering costs incurred to design ASICs and human experience solutions for OEM customers prior to and after our OEMs' commitment to incorporate those solutions into their products. In addition, we expense in-process research and development projects acquired as part of a business acquisition, which have not yet reached technological feasibility, and which have no foreseeable alternative future use. We continue to commit to the technological and design innovation required to maintain our position in our existing markets, and to adapt our existing technologies or develop new technologies for new markets.

Selling, general, and administrative expenses include expenses related to sales, marketing, and administrative personnel; internal sales and outside sales representatives' commissions; market and usability research; outside legal, accounting, and consulting costs; and other marketing and sales activities.

Acquired intangibles amortization, included in operating expenses, consists primarily of amortization of developed technology, customer relationship and tradenames intangible assets recognized under the purchase method for business combinations.

Restructuring costs primarily reflect severance costs related to the restructuring of our operations to reduce operating expenses and gain efficiencies from our recent acquisitions. These headcount related costs were in cost of revenue, research and development, and selling, general and administrative expenses. See Note 17 Restructuring Activities to the consolidated financial statements contained elsewhere in this Report.

Interest and other expense, net, primarily reflects interest expense on our Senior Notes (as defined herein), Term Loan Facility (as defined herein) and revolving line of credit as well as the amortization of debt issuance costs and discount on our debt, partially offset by interest income earned on our cash, cash equivalents and short-term investments.

## **Acquisitions**

### *Emza*

On October 25, 2022, we acquired all of the outstanding shares of Emza for total purchase consideration of \$15.8 million, which was paid in cash. The results of Emza are included in our condensed consolidated financial statements for the periods from October 25, 2022.

### *DSP Group, Inc.*

In fiscal 2022, we acquired all of the equity of DSP Group, Inc, or DSPG, for \$22.00 per share of common stock, a total purchase consideration of \$543.3 million.

We financed the transaction through a combination of cash on hand and Term Loan Facility under our existing senior credit facility. The results of DSPG are included in our condensed consolidated financial statements for the periods from December 3, 2021.

## Critical Accounting Policies and Estimates

There have been no significant changes in our critical accounting policies and estimates during the six months ended December 2022, compared with our critical accounting policies and estimates disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended June 25, 2022.

## Trends and Uncertainties

### Current Economic Conditions

As many central banks continue to raise interest rates to combat inflation, the potential for global recession also rises. This threat of global recession appears to be driving increased caution in our customer base. During the quarter, we continued to experience reduced demand in some of our product applications as certain customers and channel partners continue to consume their accumulation of inventories, combined with customer requests to delay orders. We are cautiously optimistic, and we continue to believe that the demand slowdown is temporary, but if we do slip into a global recession, the rebound in demand may take longer than we currently anticipate. In addition, although we currently do not believe inflation in the costs of goods and services will have a material impact on our results of operations, it is possible that rising inflation could increase our operating expenses and reduce our net income. Further, rising interest rates have increased our borrowing costs on our variable rate Term Loan Facility, which will continue to drive an increase in interest costs in future accounting periods and potentially limit our borrowing capacity if a future acquisition opportunity requiring financing presents itself.

## Results of Operations

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

	Three Months Ended December				Six Months Ended December			
	2022	2021	\$ Change	% Change	2022	2021	\$ Change	% Change
IoT product applications	\$ 239.3	\$ 261.5	\$ (22.2)	(8.5%)	\$ 582.0	\$ 467.2	\$ 114.8	24.6%
PC product applications	56.5	82.7	(26.2)	(31.7%)	121.7	171.3	(49.6)	(29.0%)
Mobile product applications	57.3	76.3	(19.0)	(24.9%)	97.5	154.7	(57.2)	(37.0%)
Net revenue	353.1	420.5	(67.4)	(16.0%)	801.2	793.2	8.0	1.0%
Gross margin	186.7	225.1	(38.4)	(17.1%)	442.4	423.2	19.2	4.5%
Operating expenses:								
Research and development	89.3	88.9	0.4	0.4%	178.8	175.0	3.8	2.2%
Selling, general, and administrative	42.4	44.3	(1.9)	(4.3%)	87.1	85.9	1.2	1.4%
Acquired intangibles amortization	8.9	9.2	(0.3)	(3.3%)	18.4	17.6	0.8	4.5%
Restructuring costs	—	5.1	(5.1)	(100.0%)	-	6.5	(6.5)	(100.0%)
Operating income	46.1	77.6	(31.5)	(40.6%)	158.1	138.2	19.9	14.4%
Interest and other expense, net	(6.7)	(5.7)	(1.0)	(17.5%)	(15.0)	(11.6)	(3.4)	(29.3%)
Loss on redemption of convertible notes	—	—	—	0.0%	-	(8.1)	8.1	100.0%
Income before provision for income taxes	39.4	71.9	(32.5)	(45.2%)	143.1	118.5	24.6	20.8%
Provision for income taxes	17.4	2.0	15.4	770.0%	56.5	7.9	48.6	615.2%
Equity investment loss	—	0.4	(0.4)	(100.0%)	-	0.9	(0.9)	(100.0%)
Net income	\$ 22.0	\$ 69.5	\$ (47.5)	(68.3%)	\$ 86.6	\$ 109.7	\$ (23.1)	(21.1%)

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

	Three Months Ended		Percentage	Six Months Ended		Percentage
	December		Point	December		Point
	2022	2021	Increase/ (Decrease)	2022	2021	Increase/ (Decrease)
IoT product applications	67.9%	62.2%	5.7%	72.6%	58.9%	13.7%
PC product applications	15.9%	19.7%	(3.8%)	15.2%	21.6%	(6.4%)
Mobile product applications	16.2%	18.1%	(1.9%)	12.2%	19.5%	(7.3%)
Net revenue	100.0%	100.0%	0.0%	100.0%	100.0%	0.0%
Gross margin	52.9%	53.5%	(0.6%)	55.2%	53.4%	1.8%
Operating expenses:						
Research and development	25.3%	21.1%	4.2%	22.3%	22.1%	0.2%
Selling, general, and administrative	12.0%	10.5%	1.5%	10.9%	10.8%	0.1%
Acquired intangibles amortization	2.5%	2.2%	0.3%	2.3%	2.2%	0.1%
Restructuring costs	0.0%	1.2%	(1.2%)	0.0%	0.8%	(0.8%)
Operating income	13.1%	18.5%	(5.4%)	19.7%	17.4%	2.3%
Interest and other expense, net	(1.9%)	(1.4%)	(0.5%)	(1.9%)	(1.5%)	(0.4%)
Loss on redemption of convertible notes	0.0%	0.0%	0.0%	0.0%	(1.0%)	1.0%
Income before provision for income taxes	11.2%	17.1%	(5.9%)	17.9%	14.9%	3.0%
Provision for income taxes	4.9%	0.5%	4.4%	7.1%	1.0%	6.1%
Equity investment loss	0.0%	0.1%	(0.1%)	0.0%	0.1%	(0.1%)
Net income	6.2%	16.5%	(10.3%)	10.8%	13.8%	(3.0%)

#### Net Revenue

Net revenue was \$353.1 million for the three months ended December 2022, compared with \$420.5 million for three months ended December 2021, a decrease of \$67.4 million, or 16.0%. Of this net revenue, \$239.3 million, or 67.9%, was from IoT product applications, \$56.5 million, or 15.9%, was from PC product applications, and \$57.3 million, or 16.2%, was from Mobile product applications. Revenue decreased in all of our product applications for the three months ended December 2022. Net revenue from IoT product applications decreased as a result of lower average selling prices (which decreased 11.1%) due to product sales mix, partially offset by an increase in units sold (which increased 2.9%). Net revenue from PC product applications decreased due to a decline in units sold (which decreased 30.8%) related to certain end customers' decline in demand and desire to reduce their inventory holdings coupled with a decrease in average selling prices (which decreased 1.3%) due to our product sales mix. Net revenue from Mobile product applications decreased due to a decline in units sold (which decreased 28.3%) as demand broadly softened for our products in the mobile market, partially offset by higher average selling prices (which increased 4.8%).

Net revenue was \$801.2 million for the six months ended December 2022, compared with \$793.2 million for the six months ended December 2021, an increase of \$8.0 million, or 1.0%. Of this net revenue, \$582.0 million, or 72.6%, was from IoT product applications, \$121.7 million, or 15.2% was from PC product applications, and \$97.5 million, or 12.2%, was from Mobile product applications. The increase in net revenue for the six months ended December 2022 was primarily attributable to an increase in net revenue from IoT product applications, partially offset by a decrease in net revenue from PC and Mobile product applications. Net revenue from IoT product applications increased as a result of an increase in units sold (which increased 29.5%) as well as higher average selling prices (which increased 58.4%) due to product sales mix. Net revenue from PC product applications decreased due to a decline in units sold (which decreased 35.5%) partially offset by higher average selling prices (which increased 9.7%) due to our product sales mix. Net revenue from Mobile product applications decreased due to a decline in units sold (which decreased 46.6%) for Mobile product applications and lower average selling prices (which decreased 20.8%) due to our product sales mix.

#### Gross Margin

Gross margin as a percentage of net revenue was 52.9%, or \$186.7 million, for the three months ended December 2022, compared with 53.5%, or \$225.1 million, for the three months ended December 2021. The 60-basis point decrease in gross margin for the three months ended December 2022, was due to a decrease in average sales prices across many of our product applications.

Gross margin as a percentage of net revenue was 55.2% or \$442.4 million, for the six months ended December 2022, compared with 53.4%, or \$423.2 million, for the six months ended December 2021. The 180 basis point increase in gross margin for the six months ended December 2022, was due to an overall favorable product mix and an increase in average sales prices across many of our product applications.

Because we sell our technology solutions in designs that are generally unique or specific to an OEM customer's application, gross margin varies on a product-by-product basis, making our cumulative gross margin a blend of our product specific designs. As a fabless manufacturer, our gross margin percentage is generally not materially impacted by our shipment volume. We charge the provision for excess and obsolete inventories and losses on inventory purchase obligations (including warranty costs) to cost of revenue.

## Operating Expenses

*Research and Development Expenses.* Research and development expenses increased \$0.4 million to \$89.3 million for the three months ended December 2022, compared with \$88.9 million for the three months ended December 2021. The increase in research and development expenses was primarily driven by an increase in payroll and other employee related costs of \$6.3 million, a \$2.0 million increase in new product development activities, partially offset by a \$6.4 million decrease in variable compensation and a \$5.2 million decrease in share-based compensation costs primarily related to a decrease in our stock price associated with cash settled phantom stock awards during the second quarter of fiscal 2023 compared to the same period a year ago.

Research and development expenses increased \$3.8 million to \$178.8 million for the six months ended December 2022, compared with \$175.0 million for the six months ended December 2021. The increase in research and development expenses primarily reflected a \$12.2 million increase in payroll related costs, a \$3.6 million increase in new product development activities, a \$2.9 million increase in software license and maintenance fees, partially offset by a \$8.0 million decrease in variable compensation and a \$12.0 million decrease in share-based compensation costs primarily related to a decrease in our stock price associated with cash settled phantom stock awards during the first half of fiscal 2023 compared to the same period a year ago.

*Selling, General, and Administrative Expenses.* Selling, general, and administrative expenses decreased \$1.9 million to \$42.4 million for the three months ended December 2022, compared with \$44.3 million for the three months ended December 2021. The decrease in selling, general, and administrative expenses primarily reflected a \$0.6 million increase in payroll related costs, a \$2.2 million loss from foreign currency remeasurement upon modification of an operating lease, partially offset by a \$2.8 million decrease in variable compensation and a \$1.1 million decrease in share-based compensation costs primarily related to a decrease in our stock price associated with cash settled phantom stock awards during the second quarter of fiscal 2023 compared to the same period a year ago.

Selling, general, and administrative expenses increased \$1.2 million to \$87.1 million for the six months ended December 2022, compared with \$85.9 million for the six months ended December 2021. The increase in selling, general, and administrative expenses primarily reflected a \$2.8 million increase in payroll related costs, a \$2.2 million loss from foreign currency remeasurement upon modification of an operating lease, partially offset by a \$4.4 million decrease in variable compensation.

*Acquired Intangibles Amortization.* Acquired intangibles amortization reflects the amortization of intangibles acquired through acquisitions. For further discussion of acquired intangibles amortization, see Note 8 Acquired Intangibles and Goodwill to the condensed consolidated financial statements contained elsewhere in this Report.

*Interest and Other Expense, Net.* Interest and other expense, net, primarily includes interest on our debt, amortization of debt discount and issuance costs, partially offset by interest income earned on our cash, cash equivalents and short-term investments. Interest and other expense, net, increased by \$1.0 million to \$6.7 million for the three months ended December 2022, as compared to \$5.7 million for the three months ended December 2021.

The increase in interest and other expense, net, is primarily due to interest and amortization of debt issuance costs on the \$600 million incremental Term Loan Facility executed in December 2021. The second quarter of fiscal 2023 includes a full quarter of interest expense on the \$600 million Term Loan Facility whereas during the same period a year ago, the interest expense thereon only included a partial month. Additionally, the interest rate on the Term Loan Facility had increased by 465 basis points by the end of the second quarter of fiscal 2023 compared to the same period a year ago. The increase in interest and other expense, net, was partially offset by a \$5.7 million increase in interest income compared to the same period a year ago and is related to a rise in interest rates period-over-period.

Interest and other expense, net, increased \$3.4 million to \$15.0 million for the six months ended December 2022, as compared to \$11.6 million for the six months ended December 2021. The first half of fiscal 2023 includes a period of interest expense on the \$600 million Term Loan Facility whereas during the same period a year ago, the interest expense thereon only included a partial month. Additionally, the interest rate on the Term Loan Facility had increased by 465 basis points by the end of the second quarter of fiscal 2023 compared to the same period a year ago. The increase in interest and other expense, net, was partially offset by a \$8.8 million increase in interest income compared to the same period a year ago and is related to a rise in interest rates period-over-period.

*Provision for Income Taxes.* We account for income taxes under the asset and liability method. The provision for income taxes recorded in interim periods is based on our estimate of the annual effective tax rate applied to year-to-date income before provision for income taxes, adjusted for discrete items required to be recognized in the period in which they are incurred. In each quarter, we update our estimate of the annual effective tax rate, and if the estimated annual tax rate changes, we make a cumulative adjustment in that quarter. Our quarterly tax provision and our quarterly estimate of the annual effective tax rate can be subject to volatility due to

several factors, including our ability to accurately forecast annual income before provision for income taxes in each of the tax jurisdictions in which we operate.

The provision for income taxes of \$17.4 million and \$56.5 million for the three and six months ended December 2022, respectively, represented estimated federal, foreign, and state income taxes. The effective tax rate for the three and six months ended December 2022, diverged from the combined U.S. federal and state statutory tax rate primarily due to the impact of tax law changes becoming effective in our fiscal 2023, including non-creditable foreign withholding taxes resulting from the final foreign tax credit regulations published in January 2022 and the research and development capitalization rules increasing our global intangible low-taxed income, or GILTI, resulting from the U.S. Tax Cuts and Jobs Act of 2017, and non-deductible officer compensation, partially offset by the benefit of foreign income taxed at lower rates, and research credits.

The provision for income taxes of \$2.0 million and \$7.9 million for the three and six months ended December 2021, respectively, represented estimated federal, foreign, and state income taxes. The effective tax rate for the three and six months ended December 2021, diverged from the combined U.S. federal and state statutory tax rate, primarily due to foreign income taxed at lower rates, the benefit of research credits and foreign tax credits, partially offset by foreign withholding taxes, non-deductible officer compensation, non-deductible stock-based compensation, and GILTI.

### **Liquidity and Capital Resources**

Our cash and cash equivalents were \$818.8 million as of December 2022, compared with \$824.0 million as of June 2022, representing a decrease of \$5.2 million. The decrease primarily reflected \$49.1 million used for payroll taxes on the delivery of the underlying shares for Restricted Stock Units, or RSUs, Market Stock Units, or MSUs, and Performance Stock Units, or PSUs, \$15.5 net cash paid to acquire Emza, \$15.3 million for the purchase of property and equipment, \$74.5 million for repurchases of our common stock, partially offset by proceeds from maturities of our short-term investments of \$11.9 and \$128.5 million of net cash provided by operating activities.

We consider almost all of the earnings of our foreign subsidiaries as not indefinitely invested overseas and have made appropriate provisions for income or withholding taxes that may result from a future repatriation of those earnings. As of December 2022, \$744.0 million of cash, cash equivalents and short-term investments was held by our foreign subsidiaries. If these funds are needed for our operations in the United States, we would be able to repatriate substantially all of these funds without impacting our provision for income taxes.

*Cash Flows from Operating Activities.* Operating activities during the six months ended December 2022 generated \$128.5 million compared with \$180.7 million net cash generated during the six months ended December 2021. For the six months ended December 2022, the primary operating activities were adjustments for non-cash charges of \$141.0 million and a net change in operating assets and liabilities of \$99.1 million. The net change in operating assets and liabilities was primarily attributable to a \$6.7 million increase in inventories, a \$69.3 million decrease in accounts receivable, a \$62.1 million decrease in accounts payable, a \$54.2 million decrease in accrued compensation and a \$53.9 million decrease in income taxes payable and other accrued liabilities.

During the six months ended December 2022, our days sales outstanding was 65 days compared to 67 days at the same period a year ago. Our annual inventory turns decreased from six to three over the same time period.

*Cash Flows from Investing Activities.* Cash used by investing activities during the six months ended December 2022 was \$18.8 million compared with \$524.8 million during the six months ended December 2021. Net cash provided by investing activities for the six months ended December 2022 consisted of \$11.9 million proceeds from the maturities of investments, partially offset by \$15.5 net cash paid to acquire Emza and \$15.3 million for purchases of property and equipment.

*Cash Flows from Financing Activities.* Cash used in financing activities for the six months ended December 2022 was \$115.0 million compared with \$11.7 million provided by financing activities for the six months ended December 2021. Net cash used by financing activities for the six months ended December 2022 consisted of \$8.8 million proceeds from issuance of shares, offset by \$49.1 million used for payroll taxes on the delivery of the underlying shares for RSUs, MSUs and PSUs, and \$74.5 million used to repurchase our common stock.

*Common Stock Repurchase Program.* As of December 2022, our board has cumulatively authorized \$1.8 billion for our common stock repurchase program, which will expire in July 2025. The program authorizes us to purchase our common stock in the open market or in privately negotiated transactions, depending upon market conditions and other factors. The number of shares purchased, and the timing of purchases, are based on the level of our cash balances, general business and market conditions, and other factors. Common stock purchased under this program is held as treasury stock. From April 2005 through December 2022, we purchased, net of issuances for settlement of our convertible notes, 28,877,798 shares of our common stock in the open market for an aggregate cost of \$769.0 million. During the six months ended December 2022, we repurchased 633,546 shares of our common stock. As of December 2022, the remaining available authorization under our common stock repurchase program was \$502.9 million.

### Senior Notes

On March 11, 2021, we completed an offering of \$400.0 million aggregate principal amount of 4.0% senior notes due 2029, or the Senior Notes, in a private offering. The Senior Notes were issued pursuant to an Indenture, dated as of March 11, 2021, or the Indenture, by and among our company, the guarantors named therein and Wells Fargo Bank, National Association, as trustee.

The Indenture provides that the Senior Notes will bear interest at a rate of 4.000% per annum, payable in cash semi-annually in arrears on December 15 and June 15 of each year, commencing on June 15, 2021. The Senior Notes will mature on June 15, 2029 and are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by each of our current and future domestic restricted subsidiaries that guarantee our obligations under our senior secured credit facilities.

Prior to June 15, 2024, we may redeem the Senior Notes, in whole or in part, at a redemption price of 100% of the principal amount thereof, plus a make-whole premium set forth in the Indenture, plus accrued and unpaid interest, if any, to, but excluding, the redemption date.

We may redeem some or all of the Senior Notes on or after June 15, 2024 at the redemption prices specified below, plus accrued and unpaid interest, if any, to, but excluding, the redemption date:

Year	Price
2024	102 %
2025	101 %
2026 and thereafter	100 %

In addition, at any time prior to June 15, 2024, we may redeem up to 40% of the aggregate principal amount of the Senior Notes at a redemption price equal to 104% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but excluding, the applicable redemption date with the net cash proceeds from one or more equity offerings by us.

The Senior Notes are the general unsecured obligations of our company. The Senior Note guarantees are the senior unsecured obligations of each guarantor. Under certain circumstances, the guarantors may be released from their Senior Note guarantees without consent of the holders of Senior Notes. Under the terms of the Indenture, the Senior Notes rank equally in right of payment with all of our and the guarantors' existing and future senior indebtedness, and rank contractually senior in right of payment to our and the guarantors' future indebtedness and other obligations that are, by their terms, expressly subordinated in right of payment to the Senior Notes. The Senior Notes are effectively subordinated to our and the guarantors' existing and future secured indebtedness, including secured indebtedness under our senior secured credit facilities, to the extent of the value of the assets securing such indebtedness. The Senior Notes and guarantees are structurally subordinated to all existing and future indebtedness and liabilities (including trade payables) of our subsidiaries that do not guarantee the Senior Notes.

The Indenture contains covenants that, subject to exceptions and qualifications, among other things, limit our ability and the ability of our Restricted Subsidiaries (as defined in the Indenture) to (i) incur additional indebtedness and guarantee indebtedness; (ii) pay dividends or make other distributions or repurchase or redeem our company's or any parent's capital stock; (iii) prepay, redeem or repurchase certain indebtedness; (iv) issue certain preferred stock or similar equity securities; (v) make loans and investments; (vi) dispose of assets; (vii) incur liens; (viii) enter into transactions with affiliates; (ix) enter into agreements restricting its subsidiaries' ability to pay dividends; and (x) consolidate, merge or sell all or substantially all of its assets.

The Indenture contains customary events of default including, without limitation, failure to make required payments, failure to comply with certain agreements or covenants, cross-acceleration to certain other indebtedness in excess of specified amounts, certain events of bankruptcy and insolvency, and failure to pay certain judgments. An event of default under the Indenture will allow either the trustee or the holders of at least 25% in aggregate principal amount of the then outstanding Senior Notes to accelerate, or in certain cases, will automatically cause the acceleration of, the maturity of the principal, and accrued and unpaid interest, if any, on all outstanding Senior Notes.

### Bank Credit Facility

On March 11, 2021, we entered into a Second Amended and Restated Credit Agreement, or the Credit Agreement, with the lenders party thereto and Wells Fargo Bank, National Association, as administrative agent to, among other changes, extend the maturity date of our senior secured revolving credit facility, to five years from the closing date of the amendment, increase the facility size from \$200.0 million to \$250.0 million, and replace the requirement to maintain a total debt to Consolidated EBITDA ratio (as defined in the Credit Agreement) of not more than 4.75 to 1.00 with a requirement to maintain a net total debt to Consolidated EBITDA ratio of not more than 3.75 to 1.00 provided that for the four fiscal quarters ending after the date of a material acquisition, such maximum leverage ratio shall be adjusted to 4.25 to 1.00, and thereafter 3.75 to 1.00, provided further, that such deemed increase pursuant to the foregoing shall not apply to more than two material acquisitions consummated during the term of the Credit Agreement.

The Credit Agreement provides for a revolving credit facility in a principal amount of up to \$250 million, which includes a \$20 million sublimit for letters of credit and a \$25 million sublimit for swingline loans. Under the terms of the Credit Agreement, we may, subject to the satisfaction of certain conditions, request increases in the revolving credit facility commitments in an aggregate principal amount of up to \$150 million to the extent existing or new lenders agree to provide such increased or additional commitments, as applicable. Future proceeds under the revolving credit facility are available for working capital and general corporate purposes. In March 2021 we used a portion of the proceeds from the Senior Notes described above to repay the \$100.0 million outstanding borrowings on this revolving credit facility. As of December 2022, there was no balance outstanding under the revolving credit facility.

Borrowings under the revolving credit facility are required to be repaid in full by March 11, 2026. Debt issuance costs relating to the revolving credit facility of \$1.6 million, included in non-current other assets on our consolidated balance sheet, are being amortized over 60 months.

Our obligations under the Credit Agreement are guaranteed by the material domestic subsidiaries of our company, subject to certain exceptions, who collectively with our company are referred to as the Credit Parties. The obligations of the Credit Parties under the Credit Agreement and the other loan documents delivered in connection therewith are secured by a first priority security interest in substantially all of the existing and future personal property of the Credit Parties, including, without limitation, 65% of the voting capital stock and 100% of the non-voting capital stock of certain of the Credit Parties' direct foreign subsidiaries, subject to certain exceptions.

The revolving credit facility bears interest at our election of a Base Rate plus an Applicable Margin or LIBOR plus an Applicable Margin. Swingline loans bear interest at a Base Rate plus an Applicable Margin. The Base Rate is a floating rate that is the greater of the Prime Rate, the Federal Funds Rate plus 50 basis points, or LIBOR plus 100 basis points. The Applicable Margin is based on a sliding scale that ranges from 0.25 to 100 basis points for Base Rate loans and 100 basis points to 175 basis points for LIBOR loans. We are required to pay a commitment fee on any unused commitments under the Credit Agreement which is determined on a leverage-based sliding scale ranging from 0.175% to 0.25% per annum. Interest and fees are payable on a quarterly basis. The LIBOR index is expected to be discontinued at the end of 2021. Under our credit facility, when the LIBOR index is discontinued, we will switch to a comparable or successor rate as selected by us and the administrative agent, which may include the Secured Overnight Financing Rate, or SOFR.

Under the Credit Agreement, there are various restrictive covenants, including two financial covenants that limit the consolidated total leverage ratio, or leverage ratio, the consolidated interest coverage ratio, or interest coverage ratio, a restriction that permits accounts receivable financings provided that the aggregate unpaid amount of permitted accounts receivable financings are no more than the greater of \$100 million and 50% of the amount of all accounts receivable of the company and specified subsidiaries, and other specific items. The leverage ratio is the ratio of debt as of the measurement date to Consolidated EBITDA, for the four consecutive quarters ending with the quarter of measurement. The current leverage ratio shall not exceed 3.75 to 1.00 provided that for the four fiscal quarters ending after the date of a material acquisition, such maximum leverage ratio shall be adjusted to 4.25 to 1.00, and thereafter 3.75 to 1.0. The interest coverage ratio is Consolidated EBITDA to interest expense for the four consecutive quarters ending with the quarter of measurement. The interest coverage ratio must not be less than 3.50 to 1.0 during the term of the Credit Agreement. As of December 2022, we remain in compliance with the restrictive covenants.

#### *Term Loan Facility*

In December 2021, we entered into that certain First Amendment and Lender Joinder Agreement to the Credit Agreement, to, among other things, establish a new \$600.0 million incremental term loan facility, or the Term Loan Facility. The Term Loan Facility was advanced by certain existing and new lenders under the Credit Agreement to finance our DSPG acquisition. The Term Loan Facility matures on December 2, 2028. Principal on the Term Loan Facility is payable in equal quarterly installments on the last day of each March, June, September and December of each year, beginning December 31, 2021, at a rate of 1.00% per annum.

Borrowings under the Term Loan Facility will accrue interest at the London Interbank Offered Rate, or LIBOR, plus 2.25% or at the base rate plus 1.50%, subject to a 25 basis point step-down based on total gross leverage, and subject to a LIBOR floor of 50 basis points. The base rate is the highest of (i) the Federal Funds Rate plus 0.50%, (ii) the Wells Fargo Bank, National Association prime rate and (iii) the one-month LIBOR plus 1.00%. The LIBOR index is expected to be discontinued at the end of June 2023. Under our credit facility, when the LIBOR index is discontinued, we will switch to a comparable or successor rate as selected by us and the administrative agent, which may include the Secured Overnight Financing Rate, or SOFR. The Term Loan Facility contains customary representations and warranties, affirmative and negative covenants and events of default, in each case consistent with the Credit Agreement. The Term Loan Facility does not contain any financial covenant.

The Term Loan Facility is subject to a 1.00% prepayment premium in the event all or any portion of the Term Loan Facility is prepaid within the first 6 months in connection with a repricing transaction only. The Term Loan Facility is subject to customary mandatory prepayments, including, commencing June 30, 2023, an excess cash flow sweep, subject to customary step-downs and thresholds.



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

*Working Capital Needs.* We believe our existing cash and cash equivalents, anticipated cash flows from operating activities, anticipated cash flows from financing activities, and available credit under our revolving credit facility, will be sufficient to meet our working capital and other cash requirements, including acquisitions, and our debt service obligations for at least the next 12 months. Our future capital requirements will depend on many factors, including our revenue, the continuing or worsening impact of the COVID-19 pandemic, the timing and extent of spending to support product development efforts, costs associated with restructuring activities net of projected savings from those activities, costs related to protecting our intellectual property, the expansion of sales and marketing activities, timing of introduction of new products and enhancements to existing products, costs to ensure access to adequate manufacturing, costs of maintaining sufficient space for our workforce, the continuing market acceptance of our product solutions, our common stock repurchase program, and the amount and timing of our investments in, or acquisitions of, other technologies or companies. Further equity or debt financing may not be available to us on acceptable terms or at all. If sufficient funds are not available or are not available on acceptable terms, our ability to fund our future long-term working capital needs, take advantage of business opportunities or to respond to competitive pressures could be limited or severely constrained.

The undistributed earnings of our foreign subsidiaries are not currently required to meet our United States working capital and other cash requirements, but should we repatriate a portion of these earnings, we may be required to pay certain previously accrued state and foreign taxes, which would impact our cash flows.

### Contractual Obligations and Commercial Commitments

Our material contractual obligations and commercial commitments as of December 2022 were as follows (in millions):

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	1-3 Years	3-5 Years	Thereafter
Long-term debt <sup>(1)</sup>	\$ 1,365.9	\$ 29.7	\$ 130.7	\$ 128.9	\$ 1,076.6
Leases	65.1	2.5	21.0	15.6	26.0
Purchase obligations and other commitments <sup>(2)</sup>	182.8	47.1	116.7	19.0	—
Total	<u>\$ 1,613.8</u>	<u>\$ 79.3</u>	<u>\$ 268.4</u>	<u>\$ 163.5</u>	<u>\$ 1,102.6</u>

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

(2) Purchase obligations and other commitments include payments due for inventory purchase obligations with contract manufacturers, long-term software tool licenses, and other licenses.

The amounts in the table above exclude gross unrecognized tax benefits related to uncertain tax positions of \$51.2 million. As of December 2022, we were unable to make a reasonably reliable estimate of when cash settlement with a taxing authority may occur in connection with our gross unrecognized tax benefit.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Except as described below, as of December 24, 2022, our market risk related to interest rates on our cash and cash equivalents, and foreign currency exchange risks has not changed materially from the risks disclosed in Item 7A of our Annual Report on Form 10-K for the fiscal year ended June 25, 2022.

#### **Interest Rate Risk on Debt**

With our outstanding debt, we are exposed to various forms of market risk, including the potential losses arising from adverse changes in interest rates on our outstanding Term Loan Facility, including changes that may result from implementation of new benchmark rates that replace LIBOR. See “Note 12. Debt” for further information. A hypothetical increase in the interest rate by 1% would result in an increase in annual interest expense of approximately \$5.9 million based on the outstanding balance of our Term Loan as of December 2022.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

Although many of the restrictions and containment measures implemented by governmental authorities in response to the COVID-19 pandemic have since been lifted or scaled back, some of our employees continue to work from home, or on a hybrid basis. Established business continuity plans were initiated in order to mitigate the impact to our control environment, operating procedures, data, and internal controls. The design of our processes and controls allows for remote execution with accessibility to secure data.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer, as of December 24, 2022, concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

#### **Changes in Internal Control over Financial Reporting**

We assessed, with the participation of our CEO and CFO, any change in our internal control over financial reporting as of the end of the fiscal quarter covered by this Report.

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the period ended December 2022, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

We are party to various litigation matters and claims arising from time to time in the ordinary course of business. While the results of such matters cannot be predicted with certainty, we believe that the final outcome of such matters will not have a material adverse effect on our business, financial condition, results of operations or cash flows.

### ITEM 1A. RISK FACTORS

We refer you to the Company's risk factors set forth in Part I, Item 1A, "Risk Factors," of our Annual Report on Form 10-K for the fiscal year ended June 25, 2022 for material risks that may affect our business. There have been no material changes from the risk factors previously disclosed.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

#### Issuer Purchases of Equity Securities

Our Board of Directors has cumulatively authorized \$1.8 billion for our common stock repurchase program, which expires at the end of July 2025. As of December 2022, the remaining amount authorized for the repurchase of our common stock was \$502.9 million. During the three-month period ended December 2022, repurchases under our common stock repurchase program were as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Dollar Value of Shares that May Be Purchased in the Future Under the Program
September 25, 2022 - October 22, 2022	197,889	\$ 96.27	197,889	\$ 544,964,378
October 23, 2022 - November 19, 2022	205,910	92.53	205,910	525,912,558
November 20, 2022 - December 24, 2022	229,747	100.34	229,747	502,860,645
Total	<u>633,546</u>			

**ITEM 6. EXHIBITS**

31.1	<a href="#">Certification of Chief Executive Officer</a>
31.2	<a href="#">Certification of Chief Financial Officer</a>
32.1*	<a href="#">Section 1350 Certification of Chief Executive Officer</a>
32.2*	<a href="#">Section 1350 Certification of Chief Financial Officer</a>
101.INS Inline	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH Inline	XBRL Taxonomy Extension Schema Document
101.CAL Inline	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF Inline	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB Inline	XBRL Taxonomy Extension Label Linkbase Document
101.PRE Inline	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File – The cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document

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

## SIGNATURES

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

### SYNAPTICS INCORPORATED

Date: February 2, 2023

By: /s/ Michael E. Hurlston  
Name: Michael E. Hurlston  
Title: President and Chief Executive Officer

Date: February 2, 2023

By: /s/ Dean Butler  
Name: Dean Butler  
Title: Senior Vice President and Chief Financial Officer

Date: February 2, 2023

By: /s/ Kermit Nolan  
Name: Kermit Nolan  
Title: Corporate Vice President and Chief Accounting Officer

**Certification of Chief Executive Officer**

I, Michael E. Hurlston, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Synaptics Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 2, 2023

/s/ Michael E. Hurlston

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Michael E. Hurlston  
Chief Executive Officer

**Certification of Chief Financial Officer**

I, Dean Butler, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Synaptics Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 2, 2023

*/s/ Dean Butler*

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Dean Butler  
Chief Financial Officer

**Section 1350 Certification of Chief Executive Officer**

In connection with the Quarterly Report on Form 10-Q of Synaptics Incorporated (the “Company”) for the quarterly period ended December 24, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael E. Hurlston, Chief Executive Officer of the Company, certify, to the best of my knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Michael E. Hurlston

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Michael E. Hurlston  
Chief Executive Officer

February 2, 2023

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**Section 1350 Certification of Chief Financial Officer**

In connection with the Quarterly Report on Form 10-Q of Synaptics Incorporated (the “Company”) for the quarterly period ended December 24, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Dean Butler, Chief Financial Officer of the Company, certify, to the best of my knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

*/s/ Dean Butler*

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Dean Butler

Chief Financial Officer

February 2, 2023

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