SYNAPTICS INC
Form 10-Q
May 04, 2012
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-Q

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

**For the quarterly period ended March 31, 2012**

**Commission file number 000-49602**

# SYNAPTICS INCORPORATED

**(Exact name of registrant as specified in its charter)**

| **Delaware** | **77-0118518** |
|---|---|
| **(State or other jurisdiction** | **(I.R.S. Employer** |

**of incorporation or organization)** **Identification No.)**

**3120 Scott Blvd.**

**Santa Clara, California 95054**

**(Address of principal executive offices) (Zip code)**

**(408) 454-5100**

**(Registrant s telephone number, including area code)**

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

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

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

| | |
|---|---|
| Large accelerated filer x | Accelerated filer ¨ |
| Non-accelerated filer ¨ (Do not check if a smaller reporting company) | Smaller reporting company ¨ |

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

Number of shares of Common Stock outstanding at April 27, 2012: 33,679,349

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**SYNAPTICS INCORPORATED**

**QUARTERLY REPORT ON FORM 10-Q**

**FOR THE QUARTER ENDED MARCH 31, 2012**

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## PART I FINANCIAL INFORMATION

### ITEM 1. CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

**SYNAPTICS INCORPORATED AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

(unaudited)

| | March 31, 2012 | June 30, 2011 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 324,118 | $ 247,153 |
| Accounts receivable, net of allowances of $503 at March 31, 2012 and $709 at June 30, 2011 | 95,493 | 93,808 |
| Inventories | 27,975 | 28,850 |
| Prepaid expenses and other current assets | 4,476 | 4,373 |
| Total current assets | 452,062 | 374,184 |
| Property and equipment at cost, net of accumulated depreciation of $35,785 and $29,443 at March 31, 2012 and June 30, 2011, respectively | 24,800 | 26,222 |
| Goodwill | 1,927 | 1,927 |
| Non-current investments | 18,088 | 25,876 |
| Other assets | 26,333 | 27,992 |
| | $ 523,210 | $ 456,201 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 47,062 | $ 44,930 |
| Accrued compensation | 11,469 | 13,210 |
| Income taxes payable | 8,788 | 11,808 |
| Other accrued liabilities | 27,598 | 22,813 |
| Total current liabilities | 94,917 | 92,761 |
| Notes payable | 2,305 | 2,305 |
| Other liabilities | 23,600 | 21,142 |
| Stockholders equity: | | |
| Common stock: | | |
| $0.001 par value; 120,000,000 shares authorized, 48,432,280 and 46,832,208 shares issued, and 33,674,481 and 33,465,732 shares outstanding, at March 31, 2012 and June 30, 2011, respectively | 48 | 47 |
| Additional paid-in capital | 460,714 | 406,653 |
| Treasury stock: 14,757,799 and 13,366,476 common treasury shares at March 31, 2012 and June 30, 2011, respectively, at cost | (385,666) | (352,142) |
| Accumulated other comprehensive income | 2,533 | 2,520 |
| Retained earnings | 324,759 | 282,915 |

| | | |
|---|---|---|
| Total stockholders equity | 402,388 | 339,993 |
| | $ 523,210 | $ 456,201 |

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

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**SYNAPTICS INCORPORATED AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except per share data)

(unaudited)

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Net revenue | $ 131,705 | $ 142,406 | $ 410,621 | $ 455,172 |
| Cost of revenue | 69,525 | 84,790 | 218,458 | 269,690 |
| Gross margin | 62,180 | 57,616 | 192,163 | 185,482 |
| Operating expenses: | | | | |
| Research and development | 29,415 | 25,956 | 87,478 | 77,516 |
| Selling, general, and administrative | 18,031 | 17,244 | 52,461 | 51,750 |
| Total operating expenses | 47,446 | 43,200 | 139,939 | 129,266 |
| Operating income | 14,734 | 14,416 | 52,224 | 56,216 |
| Interest income | 231 | 242 | 682 | 679 |
| Interest expense | (4) | (4) | (13) | (13) |
| Impairment recovery on investments, net | 46 | 10 | 59 | 20 |
| Income before provision for income taxes | 15,007 | 14,664 | 52,952 | 56,902 |
| Provision for income taxes | 3,561 | 1,168 | 11,108 | 7,029 |
| Net income | $ 11,446 | $ 13,496 | $ 41,844 | $ 49,873 |
| Net income per share: | | | | |
| Basic | $ 0.34 | $ 0.40 | $ 1.27 | $ 1.46 |
| Diluted | $ 0.33 | $ 0.38 | $ 1.22 | $ 1.40 |
| Shares used in computing net income per share: | | | | |
| Basic | 33,389 | 33,992 | 32,935 | 34,118 |
| Diluted | 35,179 | 35,346 | 34,374 | 35,565 |

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

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**SYNAPTICS INCORPORATED AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

(unaudited)

| | Nine Months Ended March 31, | |
|---|---|---|
| | 2012 | 2011 |
| **Cash flows from operating activities** | | |
| Net income | $ 41,844 | $ 49,873 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Share-based compensation costs | 25,663 | 25,708 |
| Deferred taxes | 40 | (2,300) |
| Tax benefit realized from share-based compensation | | 3,155 |
| Excess tax benefit from share-based compensation | (2,032) | (3,155) |
| Depreciation of property and equipment | 7,978 | 8,184 |
| Impairment of property and equipment | 1,269 | |
| Impairment recovery of investments | (59) | (20) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (1,685) | 3,848 |
| Inventories | 875 | (13,957) |
| Prepaid expenses and other current assets | (103) | 120 |
| Other assets | 1,325 | (410) |
| Accounts payable | 2,132 | (5,511) |
| Accrued compensation | (1,741) | 373 |
| Income taxes payable | (731) | (3,259) |
| Other accrued liabilities | 4,954 | 1,836 |
| Net cash provided by operating activities | 79,729 | 64,485 |
| **Cash flows from investing activities** | | |
| Proceeds from sales and maturities of non-current investments | 7,860 | 350 |
| Purchases of property and equipment | (7,825) | (9,623) |
| Net cash provided by (used in) investing activities | 35 | (9,273) |
| **Cash flows from financing activities** | | |
| Purchases of treasury stock | (33,524) | (40,210) |
| Proceeds from issuance of shares | 31,294 | 20,581 |
| Excess tax benefit from share-based compensation | 2,032 | 3,155 |
| Payroll taxes for deferred stock units | (2,601) | (2,311) |
| Net cash used in financing activities | (2,799) | (18,785) |
| Net increase in cash and cash equivalents | 76,965 | 36,427 |
| Cash and cash equivalents at beginning of period | 247,153 | 209,858 |
| Cash and cash equivalents at end of period | $ 324,118 | $ 246,285 |

**Supplemental disclosures of cash flow information**

| | | |
|---|---|---|
| Cash paid for income taxes | $ 11,787 | $ 9,459 |

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

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**SYNAPTICS INCORPORATED AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(unaudited)

**1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission, or the SEC, and U.S. generally accepted accounting principles, or U.S. GAAP. However, certain information or footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such SEC rules and regulations. In our opinion, the financial statements include all adjustments, which are of a normal and recurring nature, necessary for the fair presentation of the results of the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the operating results for the full fiscal year or any future period. These financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2011.

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

Our fiscal year is the 52- or 53-week period ending on the last Saturday in June. Our fiscal 2012 is a 53-week period ending on June 30, 2012. Our fiscal 2011 was a 52-week period ending on June 25, 2011. The quarterly fiscal periods presented in this report were 13-week periods for the three months ended March 31, 2012 and March 26, 2011 and a 40-week period and 39-week period for the nine months ended March 31, 2012 and March 26, 2011, respectively. For ease of presentation, the accompanying consolidated financial statements have been shown as ending on calendar quarter end dates for all annual, interim, and quarterly financial statement captions, unless otherwise indicated.

*Use of Estimates*

The preparation of consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, allowance for doubtful accounts, cost of revenue, inventories, product warranty, share-based compensation costs, provision for income taxes, deferred income tax asset valuation allowances, uncertain tax positions, goodwill, intangible assets, investments, and contingencies. We base our estimates on historical experience, applicable laws and regulations, and various quantitative and qualitative 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.

**2. Revenue Recognition**

We recognize revenue from product sales when there is persuasive evidence that an arrangement exists, delivery has occurred and title has transferred, the price is fixed or determinable, and collection is reasonably assured, which is generally upon shipment. We accrue for estimated sales returns and other allowances, based on historical experience, at the time we recognize revenue.

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**3. Net Income Per Share**

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

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Numerator: | | | | |
| Net income | $ 11,446 | $ 13,496 | $ 41,844 | $ 49,873 |
| Denominator: | | | | |
| Shares, basic | 33,389 | 33,992 | 32,935 | 34,118 |
| Effect of dilutive share-based awards | 1,790 | 1,354 | 1,439 | 1,447 |
| Shares, diluted | 35,179 | 35,346 | 34,374 | 35,565 |
| Net income per share: | | | | |
| Basic | $ 0.34 | $ 0.40 | $ 1.27 | $ 1.46 |
| Diluted | $ 0.33 | $ 0.38 | $ 1.22 | $ 1.40 |

Our basic net income per share amounts for each period presented have been computed using the weighted average number of shares of common stock outstanding. Our diluted net income per share amounts for each period presented include the weighted average effect of potentially dilutive shares. We use the treasury stock method to determine the dilutive effect of our stock options, deferred stock units, or DSUs, and convertible notes.

Dilutive net income per share amounts do not include the weighted average effect of 1,219,495 and 3,471,863 share-based awards that were outstanding during the three months ended March 31, 2012 and 2011, and 3,833,213 and 3,507,168 share-based awards that were outstanding during the nine months ended March 31, 2012 and 2011, respectively. These share-based awards were not included in the computation of diluted net income per share because their effect would have been antidilutive.

**4. Fair Value of Cash Equivalents and Investments**

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

| | March 31, 2012 | | June 30, 2011 | |
|---|---|---|---|---|
| | Level 1 | Level 3 | Level 1 | Level 3 |
| Money market | $ 320,813 | $ | $ 243,966 | $ |
| Auction rate securities | | 18,088 | | 25,876 |
| Total available-for-sale securities | $ 320,813 | $ 18,088 | $ 243,966 | $ 25,876 |

Money market balances are included in cash and cash equivalents as of March 31, 2012 and June 30, 2011. Auction rate securities, or ARS, investments are included in non-current investments as of March 31, 2012 and June 30, 2011.

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

| | |
|---|---|
| Balance as of June 30, 2011 | $ 25,876 |
| Net unrealized gain | 13 |
| Impairment recovery of redeemed investments | 59 |
| Redemptions | (7,860) |
| Balance as of March 31, 2012 | $ 18,088 |

There were no transfers in or out of our Level 1 or 3 assets during the nine months ended March 31, 2012.

**5. Auction Rate Securities**

Our ARS investments have failed to settle in auctions and are not liquid. In the event we need to access these funds prior to their maturity, we will not be able to do so without a loss of principal, unless redeemed by the issuers or a future auction on these investments is successful. During the three months ended March 31, 2012, $5.7 million of our ARS investments were redeemed at par. During the nine months ended March 31, 2012, $7.9 million of our ARS investments were redeemed at par or for a small discount from par. During the three and nine months ended March 31, 2011, $100,000 and $350,000, respectively, of our ARS investments were redeemed at par.

As there are currently no active markets for our various failed ARS investments, we have estimated the fair value as of March 31, 2012 using a trinomial discounted cash flow analysis. The analysis considered, among other factors, the following:

- the collateral underlying the security investments;
- the creditworthiness of the counterparty;
- the timing of expected future cash flows;
- the probability of a successful auction in a future period;
- the underlying structure of each investment;
- the present value of future principal and interest payments discounted at rates considered to reflect current market conditions;
- a consideration of the probabilities of default, passing a future auction, or redemption at par for each period; and
- estimates of the recovery rates in the event of default for each investment.

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

Contractual maturities for our ARS investments are generally greater than five years, with fair value of $9.5 million maturing from calendar years 2015 to 2017, $6.4 million maturing from calendar years 2040 to 2045, and $2.1 million having no stated maturity. Of our ARS

investments, $11.1 million par value are investment grade, and the remaining $18.5 million par value are below investment grade.

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The various types of ARS investments we held as of March 31, 2012, including the original cost basis, other-than-temporary impairment included in retained earnings, new cost basis, unrealized gain/(loss), and fair value, consisted of the following (in thousands):

| | Original Cost Basis | Other-than-temporary Impairment in Retained Earnings | New Cost Basis | Unrealized Gain/(Loss) | Fair Value |
|---|---|---|---|---|---|
| Student loans | $ 6,850 | $ (179) | $ 6,671 | $ (233) | $ 6,438 |
| Closed end municipal funds | 2,250 | (18) | 2,232 | (124) | 2,108 |
| Credit linked notes | 13,500 | (8,765) | 4,735 | 2,935 | 7,670 |
| Preferred stock | 5,000 | (5,000) | | | |
| Municipals | 2,000 | (83) | 1,917 | (45) | 1,872 |
| Total ARS | $ 29,600 | $ (14,045) | $ 15,555 | $ 2,533 | $ 18,088 |

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

The various types of ARS investments we held as of June 30, 2011, including the original cost basis, other-than-temporary impairment included in retained earnings, new cost basis, unrealized gain/(loss), and fair value, consisted of the following (in thousands):

| | Original Cost Basis | Other-than-temporary Impairment in Retained Earnings | New Cost Basis | Unrealized Gain/(Loss) | Fair Value |
|---|---|---|---|---|---|
| Student loans | $ 9,150 | $ (242) | $ 8,908 | $ (249) | $ 8,659 |
| Closed end municipal funds | 7,850 | (54) | 7,796 | (467) | 7,329 |
| Credit linked notes | 13,500 | (8,765) | 4,735 | 3,291 | 8,026 |
| Preferred stock | 5,000 | (5,000) | | | |
| Municipals | 2,000 | (83) | 1,917 | (55) | 1,862 |
| Total ARS | $ 37,500 | $ (14,144) | $ 23,356 | $ 2,520 | $ 25,876 |

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

We have accounted for all of our ARS investments as non-current (included in non-current investments in the accompanying condensed consolidated balance sheets) as we are not able to reasonably determine when the ARS markets will recover or be restructured. Based on our ability to access our cash, our expected operating cash flows, and our other sources of cash, we have the intent and ability to hold these investments until the value recovers or the investments mature. Subsequent to recording other-than-temporary impairment charges, certain of our ARS investments have increased in value above their new cost bases, and this increase is included as unrealized gain above and in accumulated other comprehensive income in the accompanying condensed consolidated balance sheets.

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**6. Inventories**

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

| | March 31, 2012 | June 30, 2011 |
|---|---|---|
| Raw materials | $ 23,288 | $ 23,545 |
| Finished goods | 4,687 | 5,305 |
| | $ 27,975 | $ 28,850 |

**7. Product Warranties, Indemnifications, and Contingencies**

*Product Warranties*

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

*Indemnifications*

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

*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 or 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.

**8. Share-Based Compensation**

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

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Cost of revenue | $ 313 | $ 355 | $ 903 | $ 1,032 |
| Research and development | 3,769 | 3,377 | 11,209 | 10,129 |
| Selling, general, and administrative | 4,915 | 4,619 | 13,551 | 14,547 |
| Total | $ 8,997 | $ 8,351 | $ 25,663 | $ 25,708 |

| | | | | |
|---|---|---|---|---|
| Income tax benefit on share-based compensation | $ 2,539 | $ 2,347 | $ 7,419 | $ 7,426 |

Historically, we have issued new shares in connection with our share-based compensation plans. However, treasury shares are also available, including shares repurchased under our common stock repurchase program.

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*Stock Options*

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

| | Stock Option Awards Outstanding | Weighted Average Exercise Price | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|
| Balance at June 30, 2011 | 7,835,499 | $ 24.71 | |
| Granted | 979,886 | 26.95 | |
| Exercised | (1,280,919) | 22.29 | |
| Forfeited | (327,037) | 29.50 | |
| Balance at March 31, 2012 | 7,207,429 | 25.22 | $ 81,855 |
| Exercisable at March 31, 2012 | 4,500,774 | 23.70 | $ 58,073 |

The aggregate intrinsic value was determined using the closing price of our common stock on March 30, 2012, of $36.51, and excludes the impact of stock options that were not in-the-money.

*Deferred Stock Units*

DSU activity, including DSUs granted, delivered, and forfeited, and the balance and aggregate intrinsic value of DSUs were as follows:

| | DSU Awards Outstanding | Aggregate Intrinsic Value (in thousands) |
|---|---|---|
| Balance at June 30, 2011 | 868,025 | |
| Granted | 512,929 | |
| Delivered | (288,762) | |
| Forfeited | (56,186) | |
| Balance at March 31, 2012 | 1,036,006 | $ 37,825 |

The aggregate intrinsic value was determined using the closing price of our common stock on March 30, 2012, of $36.51.

Of the shares delivered, 79,719 shares valued at $2.6 million were withheld to meet statutory minimum tax withholding requirements.

*Employee Stock Purchase Plan*

Shares purchased, weighted average purchase price, cash received, and the aggregate intrinsic value for our employee stock purchase plan purchases during the nine-month period ended March 31, 2012 were as follows (in thousands, except for shares purchased and weighted average purchase price):

| | |
|---|---|
| Shares purchased | 110,200 |
| Weighted average purchase price | $ 24.87 |
| Cash received | $ 2,741 |

| | |
|---|---|
| Aggregate intrinsic value | $ 970 |

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**9. Income Taxes**

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

The provision for income taxes of $3.6 million and $1.2 million for the three months ended March 31, 2012 and 2011, respectively, represented estimated federal, foreign, and state income taxes. The effective tax rate for the three months ended March 31, 2012 was 23.7% and diverged from the combined federal and state statutory rate primarily because of foreign income taxed at lower tax rates and the federal and state research credit, partially offset by foreign withholding taxes, net unrecognized tax benefits associated with qualified stock options, and an increase to the liability for uncertain tax positions. The effective tax rate for the three months ended March 31, 2011 was 8.0% and diverged from the combined federal and state statutory rate primarily because of foreign income taxed at lower tax rates, the retroactive reinstatement of the federal research credit, and the state research credit, partially offset by foreign withholding taxes and net unrecognized tax benefit associated with qualified stock options.

The provision for income taxes of $11.1 million and $7.0 million for the nine months ended March 31, 2012 and 2011, respectively, represented estimated federal, foreign, and state income taxes. The effective tax rate for the nine months ended March 31, 2012 was 21.0% and diverged from the combined federal and state statutory rate primarily because of foreign income taxed at lower tax rates and the federal and state research credit, partially offset by foreign withholding taxes and net unrecognized tax benefits associated with qualified stock options. The effective tax rate for the nine months ended March 31, 2011 was 12.4% and diverged from the combined federal and state statutory rate primarily because of foreign income taxed at lower tax rates, the retroactive reinstatement of the federal research credit, and the state research credit, partially offset by foreign withholding taxes and net unrecognized tax benefit associated with qualified stock options.

Tax benefit associated with share-based compensation was $2.5 million and $2.3 million for the three months ended March 31, 2012 and 2011, respectively. Excluding the impact of share-based compensation and the related tax benefit, the effective tax rate for the three months ended March 31, 2012 and 2011 would have been 25.4% and 15.3%, respectively.

Tax benefit associated with share-based compensation was $7.4 million for both the nine months ended March 31, 2012 and 2011. Excluding the impact of share-based compensation and the related tax benefit, the effective tax rate for the nine months ended March 31, 2012 and 2011 would have been 23.6% and 17.5%, respectively.

The federal research credit expired on December 31, 2011. Generally, in the past when the federal research credit has expired, it has been retroactively reinstated. However, it is not clear if the research credit will be retroactively reinstated or reinstated at all. As such, our tax rate only reflects the benefit from the federal research credit through the expiration date.

*Unrecognized Tax Benefits*

The total liability for gross unrecognized tax benefits increased $2.2 million during the nine months ended March 31, 2012 to $22.4 million from $20.2 million at June 30, 2011 and is included in other liabilities on our condensed consolidated balance sheets. The liability for gross unrecognized tax benefits, if recognized, would reduce the effective tax rate on income from continuing operations. The increase was primarily related to a current fiscal year tax position. The balance of interest and penalties accrued related to unrecognized tax benefits as of March 31, 2012 was $2.1 million and increased by $419,000 from June 30, 2011. We classify interest and penalties, if any, as components of income tax expense.

In May 2011, we were notified by the Internal Revenue Service, or the Service, that our fiscal 2003 through 2006 and fiscal 2008 through 2010 would be subject to an audit. The early periods are being audited in connection with a mandatory review of tax refunds in excess of $2.0 million when we carried back our fiscal 2008 net operating loss. In April 2012, we received notices of proposed adjustments disallowing certain interest deductions resulting in a potential tax liability of approximately $1.0 million, excluding interest and penalties. We intend to contest the proposed adjustments through the administrative process. While we believe our unrecognized tax benefits associated with the years and issues under audit are adequate, we can make no assurances that an assessment, if any, will not exceed our accrued unrecognized tax benefits.

While the Service s audit is still ongoing, we anticipate it will conclude within the next 12 months and could result in a change to our unrecognized tax benefits. Any prospective adjustments to our unrecognized tax benefits will be recorded as an increase or decrease to income tax expense and cause a corresponding change to our effective tax rate. Accordingly, our effective tax rate could fluctuate materially from period to period.

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

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

We operate in one segment: the development, marketing, and sale of interactive user interface solutions for electronic devices and products. We generate our revenue from two broad product categories: the personal computing, or PC, market and digital lifestyle product markets. The PC market accounted for 49% and 43% of net revenue for the three months ended March 31, 2012 and 2011, respectively, and 49% and 47% of net revenue for the nine months ended March 31, 2012 and 2011, respectively.

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

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| China | $ 77,080 | $ 91,212 | $ 260,853 | $ 302,849 |
| Japan | 17,880 | 17,623 | 47,586 | 51,970 |
| Taiwan | 16,761 | 13,489 | 47,659 | 62,903 |
| Korea | 8,747 | 6,612 | 29,384 | 16,352 |
| Other | 11,237 | 13,470 | 25,139 | 21,098 |
| | $ 131,705 | $ 142,406 | $ 410,621 | $ 455,172 |

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

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Customer A | 12% | * | 13% | * |

* Less than 10%

We sell our products primarily to contract manufacturers that provide manufacturing services to original equipment manufacturers, or OEMs. We extend credit based on an evaluation of a customer s financial condition, and we generally do not require collateral. Major customer accounts receivable as a percentage of total accounts receivable at the dates presented were as follows:

| | As of March 31, 2012 | As of June 30, 2011 |
|---|---|---|
| Customer A | 11% | * |
| Customer B | * | 12% |

* Less than 10%

**11. Comprehensive Income**

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

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Our comprehensive income was as follows (in thousands):

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Net income | $ 11,446 | $ 13,496 | $ 41,844 | $ 49,873 |
| Net unrealized gain on available-for-sale investments, net of tax | 1,820 | 716 | 13 | 1,396 |
| Total comprehensive income | $ 13,266 | $ 14,212 | $ 41,857 | $ 51,269 |

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

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

You should read the following discussion and analysis in conjunction with our unaudited condensed consolidated financial statements and notes in Item 1 and with our audited consolidated financial statements and notes included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2011.

In addition to the historical information contained in this report, this report may contain forward-looking statements, including those related to our operating model and strategies; our market penetration and market share in the PC and digital lifestyle product markets; competitive factors in the PC and digital lifestyle product markets; revenue from the PC and digital lifestyle product markets; industry estimates of growth rates of these markets; average selling prices; product design mix; manufacturing costs; gross margins; customer relationships; research and development expenses; selling, general, and administrative expenses; liquidity and anticipated cash requirements; our ability to provide local sales, operational, and engineering support to customers; our assessment of the combination of the added value we bring to our OEM customers products in meeting their custom design requirements and the impact of our ongoing cost-improvement programs; and our expectations regarding the timing of the conclusion of an ongoing tax audit. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially.

We caution that these statements are qualified by various factors that may affect future results, including the following: economic conditions; changes in the market for our products and the success of our customers products; our success in moving products from the design phase into the manufacturing phase; changes in the competitive environment; infringement claims; warranty obligations related to product failures; the failure of key technologies to deliver commercially acceptable performance; our dependence on certain key markets; penetration into new markets; the absence of both long-term purchase and supply commitments; and our lengthy development and product acceptance cycles. This report should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended June 30, 2011, including particularly Item 1A Risk Factors.

**Overview**

We are a leading worldwide developer and supplier of custom-designed human interface solutions that enable people to interact more easily and intuitively with a wide variety of mobile computing, communications, entertainment, and other electronic devices. We believe our results to date reflect the combination of our customer focus, the strength of our intellectual property, and our engineering know-how, which allow us to develop or engineer products that meet the demanding design specifications of OEMs.

Many of our customers have manufacturing operations in China, and many of our OEM customers have established design centers in that region. With our expanded global presence, including offices in China, Finland, Hong Kong, Japan, Korea, Switzerland, Taiwan, and the United States, we are well positioned to provide local sales, operational, and engineering support services to our existing customers, as well as potential new customers, on a global basis.

Our manufacturing operations are based on a variable cost model in which we outsource all of our production requirements and generally drop ship our products directly to our customers from our contract manufacturers facilities, eliminating the need for significant capital expenditures and allowing us to minimize our investment in inventories. This approach requires us to work closely with our contract manufacturers to ensure adequate production capacity to meet our forecasted volume requirements. We provide our contract manufacturers with six-month rolling forecasts and issue purchase orders based on our anticipated requirements for the next 90 days. However, we do not have any long-term supply contracts with any of our contract manufacturers. We use three third-party wafer manufacturers to supply wafers and two 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, manufacturing, assembly, and test costs paid to third-party manufacturers and related overhead costs associated with our indirect manufacturing operations personnel. Additionally, we charge all warranty costs, yield losses, and any inventory provisions or write-downs to cost of revenue.

Our gross margin generally reflects the combination of the added value we bring to our OEM customers products in meeting their custom design requirements and the impact of our ongoing cost-improvement programs. These cost-improvement programs include reducing materials and component costs and implementing design and process improvements.

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Our research and development expenses include costs for supplies and materials related to product development as well as the engineering costs incurred to design human interface solutions for OEM customers prior to and after their commitment to incorporate those solutions into their products. These expenses have generally increased, reflecting our continuing commitment to the technological and design innovation required to maintain our position in our existing markets and to adapt our existing technologies or develop new technologies for new markets.

Selling, general, and administrative expenses include expenses related to sales, marketing, and administrative personnel; internal sales and outside sales representatives commissions; market research; outside legal, accounting, and consulting costs; and other marketing and sales activities. These expenses have generally increased, primarily reflecting incremental staffing and related support costs associated with our increased business levels, growth in our existing markets, and penetration into new markets.

**Critical Accounting Policies and Estimates**

There have been no significant changes in our critical accounting policies and estimates during the nine months ended March 31, 2012 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 30, 2011.

**Recent Accounting Pronouncements Not Yet Effective**

In September 2011, the Financial Accounting Standards Board, or FASB, issued updated guidance on goodwill impairment that gives companies the option to perform a qualitative assessment that may allow them to skip the annual two-step test and reduce costs. The updated accounting guidance is effective for fiscal years beginning after December 15, 2011. Early application is permitted. This updated guidance becomes effective for us in the first quarter of our fiscal 2013. We do not expect the adoption to have a material impact on our consolidated financial position, results of operations, or cash flows.

In June 2011, the FASB issued new guidance on the presentation of comprehensive income. This new guidance requires the components of net income and other comprehensive income to be either presented in one continuous statement, referred to as the statement of comprehensive income, or in two separate but consecutive statements. This new guidance eliminates the current option to report other comprehensive income and its components in the statement of stockholders equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. This new guidance is effective for our fiscal 2013. As this guidance only amends the presentation of the components of comprehensive income, the adoption will not have an impact on our consolidated financial position, results of operations, or cash flows.

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**Results of Operations**

As the fiscal nine-month period ended March 31, 2012 was a 40-week period, and the fiscal nine-month period ended March 31, 2011 was a 39-week period, the condensed consolidated statements of income during the fiscal nine-month period ended March 31, 2012 reflect an additional week of activity.

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

| | Three Months Ended March 31, | | | | Nine Months Ended March 31, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | 2011 | $ Change | % Change | 2012 | 2011 | $ Change | % Change |
| PC applications | $ 65,105 | $ 61,680 | $ 3,425 | 5.6% | $ 201,003 | $ 211,559 | $ (10,556) | (5.0%) |
| Digital lifestyle product applications | 66,600 | 80,726 | (14,126) | (17.5%) | 209,618 | 243,613 | (33,995) | (14.0%) |
| Net revenue | 131,705 | 142,406 | (10,701) | (7.5%) | 410,621 | 455,172 | (44,551) | (9.8%) |
| Gross margin | 62,180 | 57,616 | 4,564 | 7.9% | 192,163 | 185,482 | 6,681 | 3.6% |
| Operating expenses: | | | | | | | | |
| Research and development | 29,415 | 25,956 | 3,459 | 13.3% | 87,478 | 77,516 | 9,962 | 12.9% |
| Selling, general, and administrative | 18,031 | 17,244 | 787 | 4.6% | 52,461 | 51,750 | 711 | 1.4% |
| Operating income | 14,734 | 14,416 | 318 | 2.2% | 52,224 | 56,216 | (3,992) | (7.1%) |
| Interest income | 231 | 242 | (11) | (4.5%) | 682 | 679 | 3 | 0.4% |
| Interest expense | (4) | (4) | | | (13) | (13) | | |
| Impairment recovery on investments, net | 46 | 10 | 36 | 360.0% | 59 | 20 | 39 | 195.0% |
| Income before provision for income taxes | 15,007 | 14,664 | 343 | 2.3% | 52,952 | 56,902 | (3,950) | (6.9%) |
| Provision for income taxes | 3,561 | 1,168 | 2,393 | 204.9% | 11,108 | 7,029 | 4,079 | 58.0% |
| Net income | $ 11,446 | $ 13,496 | $ (2,050) | (15.2%) | $ 41,844 | $ 49,873 | $ (8,029) | (16.1%) |

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

| | Three Months Ended March 31, | | Percentage Point Increase/ (Decrease) | Nine Months Ended March 31, | | Percentage Point Increase/ (Decrease) |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | | 2012 | 2011 | |
| PC applications | 49.4% | 43.3% | 6.1% | 49.0% | 46.5% | 2.5% |
| Digital lifestyle product applications | 50.6% | 56.7% | (6.1%) | 51.0% | 53.5% | (2.5%) |
| Net revenue | 100.0% | 100.0% | | 100.0% | 100.0% | |
| Gross margin | 47.2% | 40.5% | 6.7% | 46.8% | 40.7% | 6.1% |
| Operating expenses: | | | | | | |
| Research and development | 22.3% | 18.2% | 4.1% | 21.3% | 17.0% | 4.3% |
| Selling, general, and administrative | 13.7% | 12.1% | 1.6% | 12.8% | 11.4% | 1.4% |
| Operating income | 11.2% | 10.1% | 1.1% | 12.7% | 12.4% | 0.3% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Income before provision for income taxes | 11.4% | 10.3% | 1.1% | 12.9% | 12.5% | 0.4% |
| Provision for income taxes | 2.7% | 0.8% | 1.9% | 2.7% | 1.5% | 1.2% |
| Net income | 8.7% | 9.5% | (0.8%) | 10.2% | 11.0% | (0.8%) |

*Net Revenue.*

Net revenue was $131.7 million for the quarter ended March 31, 2012 compared with $142.4 million for the quarter ended March 31, 2011, a decrease of $10.7 million, or 7.5%. Of our third quarter fiscal 2012 net revenue, $65.1 million, or 49.4%, was from PC applications and $66.6 million, or 50.6%, was from digital lifestyle product applications, including $64.7 million from mobile products. The decrease in net revenue for the quarter ended March 31, 2012 was attributable to a $14.1 million, or 17.5%, decrease in net revenue from digital lifestyle product applications, partially offset by an increase of $3.4 million, or 5.6%, in net revenue from PC applications. Net revenue from mobile products was down due to a shift in revenue from higher priced full sensor module solutions to lower priced chip or tail solutions, partially offset by an increase in mobile product unit shipments. Net revenue from PC applications increased due primarily to higher unit sales in the quarter.

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Net revenue was $410.6 million for the nine months ended March 31, 2012 compared with $455.2 million for the nine months ended March 31, 2011, a decrease of $44.6 million, or 9.8%. Of our first nine months of fiscal 2012 net revenue, $201.0 million, or 49.0%, was from PC applications and $209.6 million, or 51.0%, was from digital lifestyle product applications, including $204.6 million from mobile products. The decrease in net revenue for the nine months ended March 31, 2012 was attributable to a $34.0 million, or 14.0%, decrease in net revenue from digital lifestyle product applications and a $10.6 million, or 5.0%, decrease in net revenue from PC applications. Net revenue from mobile products was down due to a shift in revenue from higher priced full sensor module solutions to lower priced chip or tail solutions, partially offset by an increase in mobile product unit shipments. Net revenue from PC applications was down due primarily to lower PC peripheral revenue.

Based on industry estimates of unit shipments, the notebook market is anticipated to increase approximately 9% and the mobile smartphone market is anticipated to increase over 30% in calendar year 2012 compared with calendar year 2011.

*Gross Margin.*

Gross margin as a percentage of net revenue was 47.2%, or $62.2 million, for the quarter ended March 31, 2012 compared with 40.5%, or $57.6 million, for the quarter ended March 31, 2011. The 670 basis point improvement in gross margin was primarily attributable to a shift in mobile product revenue from lower margin full sensor module solutions to higher margin chip or tail solutions.

Gross margin as a percentage of net revenue was 46.8%, or $192.2 million, for the nine months ended March 31, 2012 compared with 40.7%, or $185.5 million, for the nine months ended March 31, 2011. The 610 basis point improvement in gross margin was primarily attributable to a shift in mobile product revenue from lower margin full sensor module solutions to higher margin chip or tail solutions.

As each custom-designed product solution we sell utilizes our capacitive sensing technology in a design that is 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 and independent of the vertical markets that our products serve. As a virtual manufacturer, our gross margin percentage is generally not impacted materially by our shipment volume. We charge write-downs to reduce the carrying value of obsolete, slow moving, and non-usable inventory to net realizable value, as well as warranty costs and accruals for losses on purchase commitments, to cost of revenue.

*Operating Expenses.*

*Research and Development Expenses*. Research and development expenses increased as a percentage of net revenue to 22.3% from 18.2%, and the expenses for research and development activities increased $3.5 million, or 13.3%, to $29.4 million for the quarter ended March 31, 2012 compared with $26.0 million for the quarter ended March 31, 2011. The increase in research and development expenses primarily reflected a $3.6 million increase in employee-related costs associated with a 10.6% increase in research and development staffing, partially offset by a $582,000 decline in temporary services.

Research and development expenses increased as a percentage of net revenue to 21.3% from 17.0%, and the expenses for research and development activities increased $10.0 million, or 12.9%, to $87.5 million for the nine months ended March 31, 2012 compared with $77.5 million for the nine months ended March 31, 2011. The increase in research and development expenses primarily reflected a $10.2 million increase in employee-related costs associated with a 12.0% increase in research and development staffing and a $1.1 million increase in share-based compensation costs, partially offset by a $2.0 million decline in temporary services.

*Selling, General, and Administrative Expenses*. Selling, general, and administrative expenses increased as a percentage of net revenue to 13.7% from 12.1%, while the expenses for selling, general, and administrative activities increased $787,000, or 4.6%, to $18.0 million for the three-month period ended March 31, 2012 compared with $17.2 million for the three-month period ended March 31, 2011. The increase in selling, general, and administrative expenses primarily reflected a $609,000 increase in employee-related costs associated with a 2.5% increase in selling, general, and administrative staffing, and a $296,000 increase in share-based compensation costs.

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Selling, general, and administrative expenses increased as a percentage of net revenue to 12.8% from 11.4%, while the expenses for selling, general, and administrative activities increased $711,000, or 1.4%, to $52.5 for the nine months ended March 31, 2012 compared with $51.8 million for the nine months ended March 31, 2011. The selling, general, and administrative expenses reflected a $2.0 million increase in employee-related costs associated with a 6.8% increase in selling, general, and administrative staffing, partially offset by a $1.0 million decrease in share-based compensation costs.

*Provision for Income Taxes.*

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

The provision for income taxes of $3.6 million and $1.2 million for the three months ended March 31, 2012 and 2011, respectively, represented estimated federal, foreign, and state income taxes. The effective tax rate for the three months ended March 31, 2012 was 23.7% and diverged from the combined federal and state statutory rate primarily because of foreign income taxed at lower tax rates and the federal and state research credit, partially offset by foreign withholding taxes, net unrecognized tax benefits associated with qualified stock options, and an increase to the liability for uncertain tax positions. The effective tax rate for the three months ended March 31, 2011 was 8.0% and diverged from the combined federal and state statutory rate primarily because of foreign income taxed at lower tax rates, the retroactive reinstatement of the federal research credit, and the state research credit, partially offset by foreign withholding taxes and net unrecognized tax benefit associated with qualified stock options.

The provision for income taxes of $11.1 million and $7.0 million for the nine months ended March 31, 2012 and 2011, respectively, represented estimated federal, foreign, and state income taxes. The effective tax rate for the nine months ended March 31, 2012 was 21.0% and diverged from the combined federal and state statutory rate primarily because of foreign income taxed at lower tax rates and the federal and state research credit, partially offset by foreign withholding taxes and net unrecognized tax benefits associated with qualified stock options. The effective tax rate for the nine months ended March 31, 2011 was 12.4% and diverged from the combined federal and state statutory rate primarily because of foreign income taxed at lower tax rates, the retroactive reinstatement of the federal research credit, and the state research credit, partially offset by foreign withholding taxes and net unrecognized tax benefit associated with qualified stock options.

Tax benefit associated with share-based compensation was $2.5 million and $2.3 million for the three months ended March 31, 2012 and 2011, respectively. Excluding the impact of share-based compensation and the related tax benefit, the effective tax rate for the three months ended March 31, 2012 and 2011 would have been 25.4% and 15.3%, respectively.

Tax benefit associated with share-based compensation was $7.4 million for both the nine months ended March 31, 2012 and 2011. Excluding the impact of share-based compensation and the related tax benefit, the effective tax rate for the nine months ended March 31, 2012 and 2011 would have been 23.6% and 17.5%, respectively.

The federal research credit expired on December 31, 2011. Generally, in the past when the federal research credit has expired, it has been retroactively reinstated. However, it is not clear if the research credit will be retroactively reinstated or reinstated at all. As such, our tax rate only reflects the benefit from the federal research credit through the expiration date.

In May 2011, we were notified by the Service that our fiscal 2003 through 2006 and fiscal 2008 through 2010 would be subject to an audit. The early periods are being audited in connection with a mandatory review of tax refunds in excess of $2.0 million when we carried back our fiscal 2008 net operating loss. In April 2012, we received notices of proposed adjustments disallowing certain interest deductions resulting in a potential tax liability of approximately $1.0 million, excluding interest and penalties. We intend to contest the proposed adjustments through the administrative process. While we believe our unrecognized tax benefits associated with the years and issues under audit are adequate, we can make no assurances that an assessment, if any, will not exceed our accrued unrecognized tax benefits.

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**Liquidity and Capital Resources**

Our cash and cash equivalents were $324.1 million as of March 31, 2012 compared with $247.2 million as of June 30, 2011, an increase of $76.9 million. The increase reflects the combination of $79.7 million provided from operating cash flows and $31.3 million of proceeds from the issuance of shares under our share-based compensation plans, partially offset by $33.5 million used to repurchase 1,391,323 shares of our common stock and $7.8 million used for the purchase of capital equipment. We consider earnings of our foreign subsidiaries indefinitely invested overseas and have made no provision for income or withholding taxes that may result from a future repatriation of those earnings. As of March 31, 2012, $271.0 million of cash and cash equivalents was held by our foreign subsidiaries. If these funds are needed for our operations in the United States, we would be required to accrue and pay federal and state taxes to repatriate these funds.

*Cash Flows from Operating Activities.* Operating activities during the nine months ended March 31, 2012 generated net cash of $79.7 million compared with $64.5 million of net cash generated during the nine months ended March 31, 2011. For the nine months ended March 31, 2012, net cash provided by operating activities was primarily attributable to net income of $41.8 million plus adjustments for non-cash charges of $32.9 million, and a net change of $5.0 million in operating assets and liabilities. The net change in operating assets and liabilities was primarily attributable to a $5.0 million increase in other accrued liabilities, and a $2.1 million increase in accounts payable, partially offset by a $1.7 million increase in accounts receivable. Our days sales outstanding increased from 59 to 65 days from June 30, 2011 to March 31, 2012, and our annual inventory turns declined slightly from 11 to 10 for the same period.

*Cash Flows from Investing Activities.* Our investing activities primarily relate to purchases of property and equipment. Investing activities during the nine months ended March 31, 2012 provided net cash of $35,000 compared with $9.3 million used during the nine months ended March 31, 2011. During the nine months ended March 31, 2012, net cash used in investing activities consisted of proceeds of $7.9 million from the sale and redemption of non-current investments, partially offset by $7.8 million used for the purchase of capital equipment.

*Cash Flows from Financing Activities.* Net cash used in financing activities for the nine months ended March 31, 2012 was $2.8 million compared with $18.8 million for the nine months ended March 31, 2011. Net cash used in financing activities for the nine months ended March 31, 2012 primarily included $33.5 million used to repurchase 1,391,323 shares of our common stock, partially offset by $31.3 million of proceeds from issuance of common stock under our share-based compensation plans.

*Common Stock Repurchase Program.* In October 2011, our Board of Directors authorized an additional $100.0 million for our common stock repurchase program, increasing the cumulative authorization to $520.0 million. 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 repurchased and the timing of repurchases is based on the level of our cash balances, general business and market conditions, and other factors, including alternative investment opportunities. We hold common stock repurchased under this program as treasury stock. From April 2005 through March 31, 2012, we repurchased 14,757,799 shares of our common stock in the open market for an aggregate cost of $385.7 million. Treasury shares purchased prior to August 28, 2008 were not subject to the stock split on that date, if adjusted for the stock split, the average cost would be $19.98. We currently have $134.3 million available under our common stock repurchase program, which expires in October 2013.

*Bank Credit Facility.* We currently maintain a $50.0 million working capital line of credit with Wells Fargo Bank. The Wells Fargo Bank revolving line of credit, which expires on September 1, 2012, provides for an interest rate equal to the prime lending rate or 250 basis points above LIBOR, depending on whether we choose a variable or fixed rate, respectively. We had not borrowed any amounts under the line of credit as of March 31, 2012.

*$250 Million Shelf Registration.* We have registered an aggregate of $250.0 million of common stock (including the associated rights), preferred stock, debt securities, depositary shares, warrants, purchase contracts, and units (collectively securities ) for issuance to raise funds for general corporate purposes, which may include the repayment of indebtedness outstanding from time to time, working capital, capital expenditures, acquisitions, and repurchases of our common stock or other securities. Securities issued under the shelf registration generally will be freely tradeable after their issuance unless held by an affiliate of our company, in which case such shares will be subject to the volume and manner of sale restrictions of Rule 144.

*$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 generally will be freely tradeable after their issuance under Rule 145 of the Securities Act unless held by an affiliate of the acquired company, in which case such shares will be subject to the volume and manner of sale restrictions of Rule 144.

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*Liquidity and Capital Resources.* We believe our existing cash and cash equivalents and anticipated cash flows from operating activities will be sufficient to meet our working capital and other cash requirements for at least the next 12 months. Our future capital requirements will depend on many factors, including our revenue, the timing and extent of spending to support product development efforts, costs related to protecting our intellectual property, the expansion of sales and marketing activities, the timing of introductions of new products and enhancements to existing products, the costs to ensure access to adequate manufacturing capacity, the costs of maintaining sufficient space for our expanding 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 take advantage of business opportunities or to respond to competitive pressures could be limited or severely constrained.

Our non-current investments consist of ARS investments, which have failed to settle in auctions. These investments are not liquid, and in the event we need to access these funds, we will not be able to do so without a loss of principal, unless redeemed by the issuers or a future auction on these investments is successful. Based on our ability to access our cash and cash equivalents, our expected operating cash flows, and our other sources of cash, we do not anticipate the lack of liquidity on these investments will affect our ability to operate our business as usual.

**Contractual Obligations and Commercial Commitments**

Our material contractual obligations and commercial commitments were presented as of June 30, 2011 in our Annual Report on Form 10-K for the fiscal year then ended. Except as discussed below, there have been no material changes in those obligations during the first three and nine months of fiscal 2012.

We have unrecognized tax benefits of $22.4 million. Although we were under audit by a tax agency as of March 31, 2012, we anticipate the audit will conclude within the next 12 months and as a result our unrecognized tax benefits could change.

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

Our market risk has not changed materially from the interest rate and foreign currency exchange risks disclosed in Item 7A of our Annual Report on Form 10-K for the fiscal year ended June 30, 2011.

## ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of our disclosure controls and procedures, which included inquiries made to certain other of our employees. Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have each concluded that our disclosure controls and procedures are designed and are effective to ensure that information required to be disclosed is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure and are effective and sufficient to ensure that we record, process, summarize, and report information required to be disclosed by us in our periodic reports filed under the Securities Exchange Act of 1934, as amended, within the time periods specified by the SEC s rules and forms.

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

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## PART II OTHER INFORMATION

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

**Issuer Purchases of Equity Securities**

Our cumulative authorization for our common stock repurchase program is $520.0 million. The remaining amount authorized for the repurchase of our common stock through October 2013 is $134.3 million. There were no repurchases under our common stock repurchase program during the three-month period ended March 31, 2012.

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**ITEM 6. EXHIBITS**

| | |
|---|---|
| 10.24(e) | Amended and Restated 2010 Incentive Compensation Plan |
| 31.1 | Certification of Chief Executive Officer |
| 31.2 | Certification of Chief Financial Officer |
| 32.1 | Section 1350 Certification of Chief Executive Officer |
| 32.2 | Section 1350 Certification of Chief Financial Officer |
| 101.INS* | XBRL Instance Document |
| 101.SCH* | XBRL Taxonomy Extension Schema Document |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document |

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

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**SIGNATURES**

Pursuant to the requirements of 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: May 4, 2012

By: /s/ Richard A. Bergman
Name: Richard A. Bergman
Title: President and Chief Executive Officer

Date: May 4, 2012

By: /s/ Kathleen A. Bayless
Name: Kathleen A. Bayless
Title: Senior Vice President, Chief Financial Officer, Secretary, and Treasurer