SYNAPTICS INC
Form 10-K
August 27, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended June 30, 2012

Commission File Number 000-49602

SYNAPTICS INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware	**77-0118518**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
3120 Scott Blvd.	
Santa Clara, California	**95054**
(Address of principal executive offices)	**(Zip Code)**

(408) 454-5100

Registrant s telephone number, including area code

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $.001 per share	The Nasdaq Global Select Market
Preferred Stock Purchase Rights	The Nasdaq Global Select Market

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 Act). Yes ¨ No x

The aggregate market value of Common Stock held by nonaffiliates of the registrant (25,261,060 shares), based on the closing price of the registrant s Common Stock as reported on the Nasdaq Global Select Market on December 30, 2011 of $30.15, was $761,620,959. For purposes of this computation, all officers, directors, and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such officers, directors, or 10% beneficial owners are, in fact, affiliates of the registrant.

As of August 13, 2012, there were outstanding 33,004,709 shares of the registrant s Common Stock, par value $.001 per share.

Documents Incorporated by Reference

Portions of the registrant s definitive Proxy Statement for the 2012 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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SYNAPTICS INCORPORATED

ANNUAL REPORT ON FORM 10-K

FISCAL 2012

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Statement Regarding Forward-Looking Statements

The statements contained in this report on Form 10-K that are not purely historical are forward-looking statements within the meaning of applicable securities laws. Forward-looking statements include statements regarding our expectations, anticipation, intentions, beliefs, or strategies regarding the future, whether or not those words are used. Forward-looking statements also include statements regarding revenue, margins, expenses, and earnings analysis for fiscal 2013 and thereafter; our positioning in our target markets; our ability to continue to enhance our market position and increase our business through introducing market leading interface solutions; the strength of our intellectual property portfolio, engineering know-how, systems engineering experience, and technological expertise; the success of our product development strategies; the attractiveness of our product solutions, including their performance, cost, customer satisfaction, market position, and potential; continued success of our virtual manufacturing platform; the strength of our customer relationships; the amounts of revenue generated as a result of sales to significant customers; our competitive position and competitive factors; acquisitions or strategic alliances; the success of particular product or marketing programs; and liquidity and anticipated cash needs and availability. All forward-looking statements included in this report are based on information available to us as of the filing date of this report, and we assume no obligation to update any such forward-looking statements. Our actual results could differ materially from the forward-looking statements. Among the factors that could cause actual results to differ materially are the factors discussed in Item 1A. Risk Factors.

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PART I

ITEM 1. BUSINESS

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 currently target the personal computer, or PC, market, primarily notebook computers, including ultrabooks; the markets for digital lifestyle products, including mobile smartphones and feature phones; the tablet market; and other select electronic device markets with our customized human interface solutions.

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

Our website is www.synaptics.com. Through our website, we make available free of charge all of our Securities and Exchange Commission, or SEC, filings, including our annual reports on Form 10-K, our proxy statements, our quarterly reports on Form 10-Q, and our current reports on Form 8-K as well as Form 3, Form 4, and Form 5 Reports for our directors, officers, and principal stockholders, together with amendments to those reports filed or furnished pursuant to Sections 13(a), 15(d), or 16 under the Securities Exchange Act of 1934, as amended, or the Exchange Act. These reports are available immediately after their electronic filing with the SEC. Our website also includes corporate governance information, including our Code of Conduct, our Code of Ethics for the CEO and Senior Financial Officers, and our Board Committee Charters.

Our fiscal year is the 52- or 53-week period ending on the last Saturday in June. The fiscal years presented in this report were a 53-week period ended June 30, 2012, and 52-week periods ended June 25, 2011 and June 26, 2010.

PC Market

We provide custom human interface solutions for navigation, cursor control, and multimedia controls for many of the world s premier PC OEMs. In addition to notebook applications, other PC product applications for our technology include peripherals, such as keyboards, mice, and monitors, as well as remote control devices for desktops, PCs, and digital home applications. Our solutions for the PC market include the TouchPad , a touch-sensitive pad that senses the position and movement of a person s finger on its surface; the ClickPad , a TouchPad application that eliminates the need for physical buttons; the ForcePad , a ClickPad that is thinner than conventional touchpads and provides for force sensitivity; the TouchStyk , a self-contained, easily integrated pointing stick module; and dual pointing solutions that combine both a TouchPad and a pointing stick into a single notebook computer, enabling users to use the interface of their choice.

The latest industry projections for notebook unit growth for the period 2012 through 2016 show a compound annual growth rate of 12% compared with an increase of 2% for desktop computers, reflecting the continued migration from desktops to notebooks fueled by users desire for mobile computing and on-the-go access to applications, information, and digital content. Based on the strength of our technology and engineering know-how, we believe we are well positioned to take advantage of the growth opportunity in the notebook computer market. We believe we are well positioned within the notebook computer market as our product lines of touch pads and pointing sticks allow us to address 100% of the notebook computer market.

Digital Lifestyle Product Markets

We believe our intellectual property portfolio, engineering know-how, systems engineering experience, technological expertise, experience in providing human interface solutions to major OEMs of electronic devices, and proven track record of growth in our expanding notebook computer interface business position us to be a key technological enabler for multiple consumer electronic devices targeted to meet the growing digital lifestyle trend. Based on these strengths, we are addressing the opportunities created by the growth of mobile computing communications and entertainment devices within the digital lifestyle product markets, particularly mobile smartphones and feature phones. Digital lifestyle products include mobile smartphones and feature phones, video and music players, and global positioning devices, as well as a variety of mobile, handheld, wireless, and entertainment devices. Our array of human interface solutions for digital lifestyle products are designed to enrich the interface on peripherals, mobile smartphones, and feature phones, allowing the user to more easily use or navigate complex menu systems on their devices. We believe our existing technologies, our range of product solutions, and our emphasis on ease of use, small size, low

power consumption, advanced functionality, durability, and reliability enable us to serve multiple aspects of the markets for digital lifestyle products and other electronic devices.

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Our human interface solutions for the mobile smartphone and feature phone market constitutes an important percentage of our net revenue. Net revenue for our human interface solutions for mobile smartphones and feature phones accounted for approximately 49% and 51% of our net revenue in fiscal 2012 and 2011, respectively. Our ongoing success in serving this market will depend upon the continued growth of the mobile smartphone and feature phone portion of the overall mobile phone market; our ability to demonstrate to mobile phone OEMs the advantages of our human interface solutions in terms of performance, usability, size, durability, power consumption, integration, and industrial design possibilities; and the success of products utilizing our human interface solutions. In addition, our success will depend on our ability to demonstrate to mobile smartphone OEMs the advantages of our flexible touchscreen fulfillment model and systems engineering expertise.

Industry projections for the mobile smartphone market for the period 2012 through 2016 show a compound annual growth rate of 18%, reflecting the trend towards greater functionality in mobile smartphone products to meet and address the expanded needs and expectations of the consumer-oriented market. These products require a simple, durable, and intuitive human interface solution to enable the user to navigate efficiently through menus and scroll through information contained in the host device. We believe we are well positioned to take advantage of this growing market based on our technology, engineering know-how, systems engineering experience, and the acceptance of our human interface solutions by OEMs in this market.

Tablet Market

The tablet market represents a new opportunity for our touchscreen intellectual property portfolio, engineering know-how, and technological expertise. Touchscreen solutions required for the tablet market range from basic e-book vendor solutions to multi-function solutions designed for more complex operating systems. Our ClearPad Series 7 product family is specifically targeted for this market, and its features and functionality can be customized to OEM specifications. Tablet-based capacitive touch interface devices are now offered by several leading PC and mobile phone OEMs and utilize various operating systems, including Android and Windows 8.

Our Strategy

Our objective is to continue to enhance our position as a leading supplier of human interface solutions for the PC market, including ultrabooks, for the markets for digital lifestyle products, including mobile smartphones and feature phones, and for the developing tablet market. Key aspects of our strategy to achieve this objective include those set forth below.

Extend Our Technological Leadership

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

Enhance Our Position in the PC and Mobile Smartphone and Feature Phone Markets

We intend to continue introducing market-leading human interface solutions in terms of performance, functionality, size, and ease of use for the PC and mobile smartphone and feature phone markets. We plan to continue enhancing our customers industrial design alternatives and device functionality through innovative product development based on our existing capabilities and technological advances.

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Capitalize on Growth of New Markets

We intend to capitalize on the growth of new markets, such as the tablet market and the ultrabook portion of the PC market, brought about by the convergence of computing, communications, and entertainment devices. We plan to offer innovative, intuitive human interface solutions that address the evolving portability, connectivity, and functionality requirements of these new markets. We plan to offer these solutions to existing and potential OEM customers to enable increased functionality, reduced size, lower cost, and enhanced industrial design features and to enhance the user experience of their products. We plan to utilize our existing technologies as well as aggressively pursue new technologies as new markets evolve that demand new solutions.

Emphasize and Expand Customer Relationships

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

We plan to increase our business with existing customers and attract new customers by offering both custom designed solutions, as well as design tools, documentation, a family of capacitive sensing ASICs, and technical support to enable them to develop their own human interface designs in products such as mobile smartphones and feature phones, tablets, ultrabooks, PC peripherals, and other digital entertainment devices. We offer our mobile smartphone and feature phone customers a choice of determining the most optimal way to meet their emerging and growing needs: our traditional custom module solutions or our chip or tail solutions, which enable customers to utilize our proprietary solutions together with third-party components and assembly. Our chip solution consists of our proprietary controller ASIC, customer-specific firmware, and software. Our tail solution consists of our proprietary controller ASIC, associated electronics, customer-specific firmware, software, and flexible circuit material.

Pursue Strategic Relationships and Acquisitions

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

Continue Virtual Manufacturing

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

Product Solutions

We develop and enhance interface technologies that enrich the user s experience in interacting with the user s mobile computing, communications, and entertainment devices. We engage with our customers in the design of their custom products and offer product solutions ranging from ASICs, which may include customer-specific firmware, to full module solutions. Our innovative and intuitive human interface solutions can be engineered to accommodate many diverse platforms and our expertise in human factors and usability can be utilized to improve the features and functionality of our solutions. Our extensive array of technologies includes ASICs, firmware, software, mechanical and electrical designs, and pattern recognition and touch-sensing technologies.

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Our custom-designed human interface solutions are custom engineered, total solutions for our customers, and include sensor design, module layout, ASICs, firmware, and software features for which we provide manufacturing and design support, and device testing. This allows us to be a one-stop supplier for complete human interface design from the early design stage, to manufacturing, to testing and support. Through our engineering know-how and technological expertise, we seek to provide our customers with solutions that address their individual design issues and result in high-performance, feature-rich, and reliable interface solutions. We believe our interface solutions offer the following characteristics:

Ease of Use. Our interface solutions offer the ease of use and intuitive interaction that users demand.

Small Size. The small, thin size of our interface solutions enables our customers to reduce the overall size and weight of their products in order to satisfy consumer demand for portability.

Low Power Consumption. The low power consumption of our interface solutions enables our customers to offer products with longer battery life or smaller battery size.

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

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

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

We believe these characteristics will enable us to maintain our leadership position in the PC market and to enhance our position as a technological enabler within the markets for digital lifestyle products, including mobile smartphones and feature phones, as well as the tablet market and the ultrabook portion of the PC market.

Our human interface solutions are intended to satisfy our customers specification needs, including features and functionality, industrial design, mechanical, and electrical requirements. Our products also offer unique integration options, including allowing our capacitive sensors to be placed underneath the plastic of the device, which allows for streamlined and stylized designs, and LED integration to indicate status or enhance industrial design.

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

system integration;

reduced product development costs;

shorter product time to market;

compact and efficient platforms;

improved product functionality and utility; and

product differentiation.

We work with our customers in order to meet their technical and functional specifications, their industrial design requirements, and their desire to differentiate their products from those of their competitors. This collaborative effort reduces the duplication and overlap of investment and resources, enabling our OEM customers to devote more time and resources to the market development of their products.

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We utilize capacitive technology rather than resistive or mechanical technology in our product solutions. Unlike resistive and mechanical technology, our solid-state capacitive technology has no moving parts and does not require activation force, thereby providing a durable, more reliable solution that can be integrated into both curved and flat surfaces. Capacitive technologies also allow for much thinner sensors than resistive or mechanical technology, providing for slimmer, more compact and unique industrial designs.

Products

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

TouchPad

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

Scrolling. Our TouchPad permits the user to customize the scrolling feature as One Finger Scrolling, Two-Finger Scrolling, or ChiralMotion Scrolling based on their preference.

Customizable tap zones. These zones permit designated portions of the TouchPad to be used to simulate mouse clicks, launch applications, and perform other selected functions.

Performance of entertainment, productivity, and media tasks. Our Scrybe enables the user to quickly perform common entertainment, productivity, and media tasks using simple, easy-to-remember gestures on the TouchPad. Scrybe can be downloaded free-of-charge and used with most of our modern TouchPad sensors.

Tapping and dragging of icons. This feature allows the user to simply tap and hold on an icon in order to drag it, rather than being forced to hold a button down in order to drag an icon.

Device interaction. Our Gesture Suite provides users with a customizable way to address productivity and to interact with their notebook systems through the TouchPad. Some of these gestures include Pinch for Zoom, Rotate, Three-Finger Flick, and many others.

Our TouchPad solutions are available in a variety of sizes, electrical interfaces, and thicknesses. Our TouchPad solutions are designed to meet the electrical and mechanical specifications of our customers. Customized firmware and driver software ensure the availability of specialized features. As a result of their solid state characteristics, our TouchPad solutions have no moving parts that wear out, resulting in a robust and reliable input solution that also allows for unique industrial designs.

ClickPad

Our ClickPad introduces a clickable mechanical design to the TouchPad application that eliminates the need for physical buttons. The buttonless design of our ClickPad allows for unique, intuitive industrial design and makes it an excellent alternative to conventional input and navigation devices. Our ClickPad is activated by pressing down on the internal tact switch to perform a left-button or right-button clicks and provides tactile feedback similar to pressing a physical button. The latest version of ClickPad features ClickEQ, a mechanical solution that provides uniform click depth to maximize the surface area available for gestures and improve click performance over hinged designs.

ForcePad

Our ForcePad is a thinner version of our ClickPad, which introduces a new dimension in control through the addition of variable force sensitivity. ForcePad is designed to provide consistent performance across OEM models through its design intelligence and self-calibration features. By varying the amount of force applied, ForcePad is engineered to enable more intuitive and precise user interactions in operating system controls and applications. Designed with ultrabooks in mind, ForcePad is 40% thinner than a conventional touch pad.

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Dual Pointing Solutions

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

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

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

TouchStyk

Our TouchStyk is a proprietary pointing stick interface solution for PC notebooks. TouchStyk is a self-contained, easily integrated module that uses capacitive technology similar to that of our TouchPad. TouchStyk is enabled with press-to-select and tap-to-click capabilities and can be easily integrated into multiple computing and communications devices. In addition, our design greatly reduces susceptibility to electromagnetic interference, thereby providing greater pointing accuracy and preventing the pointer from drifting when not in use. Our modular approach allows OEMs to include our TouchPad, our TouchStyk, or a combination of both interfaces (dual pointing) in their products.

NavPoint

Our NavPoint solution offers TouchPad functionality for small form factor devices for improved usability and versatility in accessing and managing content in handheld devices through unique navigation controls, including short- and long-distance scrolling features, tapping, and mouse-like cursor navigation.

ClearPad

We typically sell our ClearPad solution as a chip or tail, together with customer-specific firmware, to sensor manufacturers to use in the production of discrete touchscreen products. A discrete touchscreen product typically consists of a transparent, thin capacitive sensor that can be placed over any display, such as a Liquid Crystal Display, or LCD, or an Organic Light Emitting Diode, or OLED, and combined with a flexible circuit material and a touch controller chip. Similar to our traditional TouchPad, our ClearPad has distinct advantages, including low-profile form factor; high reliability, durability, and accuracy; and low power consumption. ClearPad enables the user to interact directly with the display on electronic devices, such as mobile smartphones and feature phones and tablets.

Our ClearPad Series 3 product family can provide full-time tracking of ten or more fingers simultaneously and features stylus support and support for various sensor configurations, including traditional discrete sensors, sensor-on-lens, which includes sensor electrodes patterned on the bottom of the glass cover lens; on-cell, which includes sensor electrodes patterned on the display glass; and in-cell, which includes sensor electrodes patterned inside the LCD glass. Our ClearPad Series 1 and 2 product families provide a low-profile form factor, high reliability, durability, accuracy, and low power consumption for feature-based and mass-market handsets.

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Our ClearPad Series 4 product family combines our proprietary capacitive multi-touch technology with a device s display driver in a single-chip solution delivering advanced display noise management and improved capacitive sensing performance. Our display integration on-cell and in-cell solutions provide cost-effective, capacitive, multi-touch interfaces for mobile devices and enables thinner form factors.

Our ClearPad Series 7 product family is designed to meet the requirements of the large touchscreen market for products more closely related to clamshell notebooks, slates, tablets, and similar devices. Our ClearPad Series 7 products include low-cost, single-chip touchscreen solutions and multi-chip touchscreen solutions designed for devices that have more demanding user input requirements, such as gaming applications.

FlexPad

This capacitive sensing interface is mounted beneath a mechanical keypad and allows the keypad surface to be used for advanced scrolling and navigation features, character entry, and advanced gesture input on handheld devices. With navigation functionality similar to a touch pad, FlexPad offers interface and industrial design differentiation while improving device interaction.

ClearButtons

Our ClearButton product is an extension of our core capacitive sensing technology that has been used in TouchPad solutions for notebook PCs, mobile smartphones, and feature phones. A ClearButton is a clear sensor that can be mounted under plastic, providing OEMs with easy integration and attractive design options for scrolling and buttons.

TouchButtons

Our TouchButton product provides capacitive button and scrolling controls for an easy-to-use and stylish interface solution designed to replace mechanical buttons. Button arrays and ScrollStrips can be programmed to perform various functions, such as controls for multimedia, display and device settings in notebook PCs, multimedia keyboards, MP3 players, digital photo frames, monitors, and other digital lifestyle products. TouchButton interfaces are designed for integration under the plastic face of a device, allowing for a sealed, durable, and thin design, which can be coupled with LED animation. OEMs can incorporate TouchButtons into their products by either designing their own button controls, scrolling controls, or a combination of button and scrolling controls using an ASIC-based solution or through our custom-designed interface module.

ThinTouch™

ThinTouch is a design technology employing an innovative ramp capability that delivers a full keyboard solution that is 40% thinner than traditional keyboard solutions. ThinTouch provides an innovative design architecture that facilitates improved backlighting, reliability, and improved manufacturability when compared to conventional mechanical keyboards. By combining our TouchPad technology with ThinTouch technology, we expect to deliver a complete keyboard solution targeted for the next generation of thin and light notebook PC form factors, including ultrabooks.

Capabilities

Our products are supported by a variety of feature capabilities allowing for further product differentiation and easy customer integration.

Design Studio

Design Studio 4 provides customers an advanced and comprehensive touch system tool set, designed to enable the customer to evaluate touch system performance and efficiently implement its ClearPad touchscreen solution.

SignalClarity Technology

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

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Synaptics Gesture Suite

Our Synaptics Gesture Suite, or SGS™, provides users with an intuitive way to interact productively with their notebook computers. SGS was developed by analyzing the most common workflows from entertainment activities, such as viewing photos and listening to music, to productivity activities, such as accessing emails and presentations. The result is an intelligent usability model that makes it intuitive for consumers to understand and discover features easily, resulting in a better user experience. SGS represents a growing portfolio of gestures available on our interface solutions. These gestures are compatible with a wide range of Microsoft Windows and Linux applications to enhance the value and productivity of notebook PCs and peripheral devices that use our TouchPads. Gestures currently in the market include Pinch, Rotate, ChiralMotion Scrolling, Two-Finger Scrolling, Three-Finger Flick, Three-Finger Down, and Four-Finger Flick.

Enhanced Gesture Recognition

Our Enhanced Gesture Recognition is a suite of ClearPad gestures included in our firmware. Customers can easily enable SingleTouch gestures, such as Tap, Double Tap, Press, and Flick; DualTouch gestures, such as Pinch and Pivot Rotate; and multi-finger gestures for ClearPad directly from our touch module firmware. No additional recognition software is required on the host processor to implement these gestures. This approach lowers host processor resource requirements and ensures that gestures are implemented using our proven pattern-recognition technology.

Dual Mode for TouchPad

Our Dual Mode-enabled TouchPad interface allows a user to switch between cursor control and icon-based controls on the TouchPad surface. In default mode, a Dual Mode-enabled TouchPad provides the same cursor control for on-screen navigation as a standard TouchPad. When the user taps on a launch icon located on the TouchPad surface, control icons illuminate on the TouchPad surface.

Dual Mode functionality offers OEMs a variety of customization options, including tap zones for launching applications and multimedia controls, scrolling zones to adjust volume, and programmable buttons to enable end users to choose their application of choice to launch through our Dual Mode driver. To regain cursor control, the user simply taps the mode switch button and the illuminated icons disappear, allowing the user to control the cursor for on-screen navigation.

Proximity Sensing

Our proximity sensing technology enables users to interact with consumer electronics without touch. With this technology, sensors in a device, such as a notebook PC, mobile phone, peripheral, or digital photo frame, sense the presence of a user s hand to activate a function. These sensors can illuminate LEDs for discoverable buttons, immediately wake devices from power-saving mode, or activate other functionality.

ChiralMotion Gesture

With our ChiralMotion Gesture technology, the user can apply one continuous circular motion to initiate precise and fine-tuned scrolling on any two-dimensional input surface, such as our TouchPad and ClearPad solutions.

ChiralMotion Gesture technology is well suited for small handheld products, such as feature-rich mobile handsets, personal navigation systems, and personal media players that require easy access for entertainment, music, and other digital files. Scrolling through long documents or pages on a notebook PC becomes simple when using a TouchPad enhanced with ChiralMotion and reversing the direction of scrolling simply requires the user to reverse the circular motion of their finger.

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InterTouch

Our InterTouch utilizes a high bandwidth internal subsystem to communicate commands between the touch pad and the host processor enabling Multi-Touch Full-Time Finger Tracking, for a better finger gesture-based user experience. InterTouch enhances the performance of our image-sensing TouchPad products, which can provide full-time tracking of ten or more fingers simultaneously, and is not possible with a lower-speed legacy PS/2 interface. InterTouch uses existing industry standard, higher-speed subsystem interfaces, which will be available to any OEM and any touch pad provider. Additional InterTouch capabilities include the following:

Cross Platform and Brands. Our InterTouch will work with all of our TouchPads and ClickPads.

Enhanced Gestures. This feature allows multi-finger gesture tracking and counting.

Re-flash/Re-programmability. Our InterTouch substantially increases data throughput, which provides fast re-flash times.

Our InterTouch is designed for full compatibility with current and future Windows platforms, and we anticipate it also will be supported on Linux-based platforms in future releases.

Technologies

We have developed and own an extensive array of technologies, encompassing ASICs, firmware, software, mechanical and electrical designs, display systems, pattern recognition, and touch-sensing technologies. With 127 U.S. patents in force and 171 U.S. patents pending, as well as many non-U.S. counterparts, we continue to develop technology in these areas. We believe these technologies and the related intellectual property rights create barriers for competitors and allow us to provide human interface solutions in a variety of high-growth markets.

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

capacitive position sensing technology;

capacitive force sensing technology;

transparent capacitive position sensing technology;

pattern recognition technology;

mixed-signal integrated circuit technology;

display systems and circuit technology;

multi-touch technology;

proprietary microcontroller technology; and

ThinTouch technology.

In addition to these technologies, we develop firmware and device driver software that we incorporate into our products, which provide unique features, such as virtual scrolling, customizable tap zones, PalmCheck, EdgeMotion, and tapping and dragging of icons. In addition, our ability to integrate all of our products to interface with major operating systems, including Windows, Android, Google Chrome, Unix, and Linux, provides us with a competitive advantage.

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

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

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

Pattern Recognition Technology. This technology is a set of software algorithms and techniques for converting real-world data, such as gestures and handwriting, into a digital form that can be recognized and manipulated within a computer. Our technology provides reliable gesture decoding and handwriting recognition, and can be used in other applications such as signature verification for a richer user experience.

Mixed-Signal Integrated Circuit Technology. This hybrid analog-digital integrated circuit technology combines the power of digital computation with the ability to interface with non-digital, real-world signals, such as the position of a finger or stylus on a surface. Our patented design techniques permit us to utilize this technology to optimize our core ASIC engine for all our products. Our mixed-signal technology consists of a broad portfolio of circuit expertise in areas such as the following:

- precision capacitance measurement
- power management (switching converters, charge pumps, and Low-dropout regulators (LDOs))
- analog-to-digital and digital-to-analog converters
- LCD source and Vcom drivers
- high-speed serial interfaces
- display timing controllers (TCONs)
- SRAM, DRAM, and non-volatile memories
- VLSI digital circuits with multiple clock and power domains
- communications and signal processing circuits

Display Systems and Circuit Technology. This technology enables us to develop optimized human interface solutions with improved compatibility with their application environments. This technology consists of mobile and large format display semiconductor expertise, including the following functional blocks:

TCONs

TFT gamma references

Vcom drivers

source drivers

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

display power circuits such as inductive switchers, charge pumps, and LDOs

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This technology also enables us to develop advanced products that combine the functions of the display and touch sensing systems to enable highly integrated display and touch functionality with improved performance, thinner form factors, and lower system cost.

Proprietary Microcontroller Technology. One example of this technology is our proprietary 16-bit microcontroller core that is embedded in the digital portion of our mixed signal ASIC, which allows us to optimize our ASIC for position sensing tasks. Our embedded microcontroller provides great flexibility in customizing our products via firmware, which eliminates the need to design new circuitry for each new application.

Competing Technology

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

Research and Development

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

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

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

As of the end of fiscal 2012, we employed 461 people in our technology, engineering, and product design functions in the United States, Taiwan, Hong Kong, Korea, Japan, and China. Our research and development expenses were approximately $118.0 million, $105.0 million, and $86.6 million in fiscal 2012, 2011, and 2010, respectively.

Intellectual Property Rights

Our success and ability to compete depend in part on our ability to maintain the proprietary aspects of our technologies and products. We rely on a combination of patents, copyrights, trade secrets, trademarks, confidentiality agreements, and other contractual provisions to protect our intellectual property, but these measures may provide only limited protection. Our research, design, and engineering teams frequently work directly with our OEM customers to design custom solutions for specific applications.

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We hold 127 U.S. patents in force and have 171 U.S. patents pending, as well as many non-U.S. counterparts to the U.S. patents and U.S. patents pending. Collectively, these patents and patents pending cover various aspects of our key technologies, including touch sensing, pen sensing, handwriting recognition, customizable tap zones, edge motion, and virtual scrolling technologies. Our proprietary software is protected by copyright laws and the source code for our proprietary software is protected under applicable trade secret laws.

Our extensive array of technologies includes ASICs, firmware, software, and pattern recognition and position sensing technologies. Our products rely on a combination of these technologies, making it difficult to use any single technology as the basis for replicating our products. Furthermore, the length and customization of the customer design cycle serve to protect our intellectual property rights.

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

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

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

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

Customers

Our customers include many of the world s largest mobile smartphone and feature phone and PC OEMs, based on unit shipments, as well as a variety of consumer electronics manufacturers. Our demonstrated track record of technological leadership, design innovation, product performance, cost effectiveness, and on-time delivery have resulted in our leadership position in providing human interface solutions. We believe our strong relationship with our OEM customers, many of which are also currently developing tablets, ultrabooks, and digital lifestyle products, will continue to position us as a source of supply for their product offerings.

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Our industry-leading OEM customers in fiscal 2012 included the following:

Acer	LG Electronics
Asustek	Nokia
Dell	Samsung
Hewlett-Packard	Sharp
HTC	Sony Mobile
Huawei	Toshiba
Lenovo	ZTE

We generally supply custom-designed products to our OEM customers through their contract manufacturers or supply chain. We sell our custom-designed products directly to these contract manufacturers, some of which include BYD, Compal, Inventec, LGIT, Pegatron, Quanta, TPK, Wintek, and Wistron. Sales to TPK accounted for approximately 12% of our net revenue for fiscal 2012. Sales to Zhan Yun Shanghai Electronics and Compal accounted for approximately 11% and 10%, respectively, of our net revenue for fiscal 2010. No customer accounted for more than 10% of our net revenue for fiscal 2011.

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

Strategic Relationships

We have used strategic relationships to enhance our ability to offer value-added customer solutions in the past. We intend to enter into additional strategic relationships with companies that may help us serve our target markets.

Sales and Marketing

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

As of the end of fiscal 2012, we employed 140 sales and marketing professionals. We maintain nine customer support offices domestically and internationally, which are located in the United States, Taiwan, China, Korea, Japan, and Switzerland. In addition, we utilize sales representatives/sales distributors in China, Japan, and Taiwan.

International sales constituted approximately 99% of our revenue for each of fiscal 2012, 2011, and 2010. Approximately 76% of our sales were made to companies located in China and Taiwan that provide design and manufacturing services for major notebook computer and digital lifestyle product OEMs. All of our sales were denominated in U.S. dollars. This information should be read in conjunction with Note 11 to the financial statements contained elsewhere in this report.

Manufacturing

We employ a virtual manufacturing platform through third-party relationships. We currently utilize three semiconductor wafer manufacturers to supply us with silicon wafers integrating our proprietary design specifications. The completed silicon wafers are forwarded to third-party

package and test processors for further processing into die and packaged ASICs, as applicable, which are then utilized in our custom interface products or processed as our ASIC-based solution.

After processing and testing, the die and ASICs are consigned to various contract manufacturers for assembly or are shipped directly to our customers. During the assembly process, our die or ASIC is combined with other components to complete the module for our custom human interface solution. The finished assembled product is subsequently shipped by our contract manufacturers directly to our customers for integration into their products.

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

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

Periodically, we purchase inventory from our contract manufacturers when a customer delays its delivery schedule or cancels its order. In those circumstances in which our customer has cancelled its order and we purchase inventory from our contract manufacturers, we consider a write-down to reduce the carrying value of the inventory purchased to its net realizable value. We charge write-downs to reduce the carrying value of obsolete, slow moving, and non-usable inventory to net realizable value to cost of revenue. We also record a liability and charge to cost of revenue for estimated losses on inventory we are obligated to purchase from our contract manufacturers when such losses become probable from customer delays or order cancellations.

Backlog

As of the end of fiscal 2012, we had a backlog of orders of $49.5 million, a decrease of $26.5 million compared with a backlog of orders as of the end of fiscal 2011 of $76.0 million. The mix of products ordered by customers at the end of fiscal 2012 had a slightly lower average selling price than those ordered at the end of fiscal 2011, and the quantity on backlog was significantly lower due to soft markets for both the PC market and the digital lifestyle product markets in the fourth quarter of fiscal 2012 compared with the fourth quarter of fiscal 2011, resulting in the decrease in backlog. Our backlog consists of product orders for which purchase orders have been received and which are scheduled for shipment in the subsequent quarter. Most orders are subject to rescheduling or cancellation with limited penalties. Because of the possibility of customer changes in product shipments, our backlog as of a particular date may not be indicative of net sales for any succeeding period.

Competition

Our principal competitors in the sale of notebook touch pads are Alps Electric, a Japanese conglomerate, and Elan Microelectronics, a Taiwanese company, and our principal competitor in the sale of notebook pointing sticks is Alps. In the markets for digital lifestyle products and other electronic devices, our competitors include Atmel, Cypress, Melfas, and various other companies involved in human interface solutions. In certain cases, large OEMs may develop alternative human interface solutions for their own products or provide key components for use in designing human interface solutions.

In the human interface markets for digital lifestyle products and other electronic devices, we compete primarily based on the advantages of our systems knowledge of capacitive sensing and pattern recognition technologies. We believe our solutions-based systems engineering experience coupled with our technologies offer benefits in terms of size, power consumption, durability, light transmissivity, resolution, ease of use, and reliability when compared to our competitors and other technologies. While these markets continue to evolve, we believe we are positioned to compete aggressively for this business based on our proven track record, our technology roadmap, our marquee global customer base, and our reputation for design innovation. New competitors, alliances among competitors, or alliances among competitors and OEMs also may emerge and allow competitors to rapidly acquire significant market share.

In the notebook human interface market, we plan to continue to compete primarily on the basis of our technological expertise, design innovation, technology roadmap, customer service, and the long track record of performance of our human interface solutions, including their ease of use, reliability, and cost-effectiveness as well as their timely design, production, and delivery schedules. Our pointing stick solutions, including our proprietary TouchStyk, enable us to address the notebook computer market that uses dual pointing interfaces.

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Furthermore, our competitors or our customers may develop technologies in the future that more effectively address the human interface needs of the notebook computer market and digital lifestyle product markets. Our sales, profitability, and success depend on our ability to compete with other suppliers of human interface solutions and components used in human interface solutions. Our competitive position could be adversely affected if one or more of our current OEMs reduce their orders or if we are unable to develop new customers for our human interface solutions.

Employees

As of the end of fiscal 2012, we employed a total of 697 persons, including 96 in operations, finance, and administration; 140 in sales and marketing; and 461 in research and development. Of these employees, 418 were located in North America, 273 in Asia/Pacific, and six in Europe. We consider our relationship with our employees to be good, and none of our employees are represented by a union in collective bargaining with us.

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

Executive Officers

The following table sets forth certain information regarding our executive officers as of August 24, 2012:

Name	Age	Position
Richard A. Bergman	48	President and Chief Executive Officer, and Director
Kathleen A. Bayless	56	Senior Vice President, Chief Financial Officer, Secretary, and Treasurer
Kevin D. Barber	52	Senior Vice President and General Manager, Handheld Products
David B. Long	51	Senior Vice President of World Wide Sales
Bret C. Sewell	51	Senior Vice President of Corporate Development
Stanley A. Swearingen	52	Senior Vice President of Strategic Technology
Alex Wong	57	Senior Vice President of World Wide Operations
Mark N. Vena	50	Senior Vice President and General Manager, PC Products

Richard A. Bergman has been President and Chief Executive Officer of our company since September 2011. Prior to joining our company, Mr. Bergman was Senior Vice President and General Manager of Advanced Micro Device s (AMD) Product Group from May 2009 to September 2011. From October 2006 to May 2009, Mr. Bergman served as Senior Vice President and General Manager of AMD s Graphics Product Group. Mr. Bergman s career at AMD began in October 2006 when AMD acquired ATI Technologies (ATI), where he served as Senior Vice President and General Manager of PC Group. Prior to ATI, Mr. Bergman served as Chief Operating Officer at S3 Graphics, a division of SonicBlue Inc. Mr. Bergman has held senior level management positions in the technology field since his early roles at Texas Instruments, Inc. and IBM. Mr. Bergman holds a Bachelor of Science degree in electrical engineering from the University of Michigan and a Master s Degree in Business Administration from the University of Colorado.

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Kathleen A. Bayless has been Senior Vice President, Chief Financial Officer, Secretary, and Treasurer of our company since September 2009. Ms. Bayless served as the Senior Vice President Finance of our company from March 2009 to September 2009. Ms. Bayless spent 13 years at Komag, a leading supplier of thin-film disks to the disk drive industry, where she served most recently as Executive Vice President, Secretary, and Chief Financial Officer beginning in September 2002. Prior to joining Komag, Ms. Bayless held the position of Senior Audit Manager at the public accounting firm of Ernst & Young. Ms. Bayless holds a Bachelor of Science degree from California State University Fresno and is a certified public accountant.

Kevin D. Barber has been Senior Vice President and General Manager of Handheld Products of our company since January 2011. Prior to joining our company, Mr. Barber was Chief Executive Officer of ACCO Semiconductor since 2008. From 2007 to 2008, Mr. Barber served as a principal consultant at PRTM focused on the electronics industry. Mr. Barber was Senior Vice President, General Manager of the Mobile Solutions business at Skyworks Solutions from 2003 to 2006 where he was responsible for delivering innovative RF products to the mobile industry. Mr. Barber was Senior Vice President of Operations at Skyworks Solutions from 2002 to 2003 and Conexant Systems from 2001 to 2002. Previously, Mr. Barber held various senior operations positions at Conexant Systems and Rockwell Semiconductor. Mr. Barber holds a Bachelor of Science in Electrical Engineering from San Diego State University and Masters of Business Administration from Pepperdine University.

David B. Long has been Senior Vice President of World Wide Sales of our company since July 2010. Mr. Long served as Vice President of World Wide Sales of our company from January 2008 to July 2010. Prior to joining our company, Mr. Long served as Vice President of Worldwide Sales for Consumer Products at LSI Logic Corporation where he directed the management of sales and customer support for standard and custom silicon solutions from 2006 to 2007. From 2003 to 2006, Mr. Long served as the Vice President of Asia Pacific Sales of LSI, focusing on the Consumer and Storage product segments. Mr. Long was the Director of North American-West Sales for LSI Operations from 2002 to 2003. Mr. Long also managed LSI s worldwide account with Cisco Systems from 1998 until 2002, directing an extended team of sales, engineering, marketing, operations, and customer service representatives. Mr. Long holds a Bachelor s degree in Business Administration/Marketing Management from California Polytechnic University, San Luis Obispo.

Bret C. Sewell has been Senior Vice President of Corporate Development of our company since May 2012. Prior to joining our company, Mr. Sewell served as Executive Vice President at Coulomb Technologies from 2010 to 2011, and served as Chief Executive Officer of Venturi Wireless from 2005 to 2007 and Kiwi Networks from 2003 to 2004. After SnapTrack s acquisition by Qualcomm, he served as president of Qualcomm s SnapTrack subsidiary and Senior Vice President in Qualcomm s semiconductor division. Earlier in his career, Mr. Sewell served as general manager for the Asia Pacific divisions of Octel Communications and Aspect Telecommunications. Mr. Sewell holds a Master of Business Administration from the Wharton School of the University of Pennsylvania, a Master of Arts in International Studies from the University of Pennsylvania, and a Bachelor of Arts in Biological Anthropology from Harvard University.

Stanley A. Swearingen has been Senior Vice President of Strategic Technology of our company since July 2010. Mr. Swearingen was also responsible for corporate development from July 2010 through May 2012. Prior to joining our company, Mr. Swearingen served as a member of the Office of the President at MiniCircuits from March 2009 to October 2009 where he was responsible for strategy and corporate development. From August 2004 to November 2008, Mr. Swearingen was the Vice President and General Manager of the Linear Product business unit at Skyworks Solutions, Inc., which designs, manufactures, sells, and supports a diverse portfolio of RF products and licensing of intellectual property. Mr. Swearingen was Vice President and General Manager of Agere Systems Computing Connectivity division, where he was responsible for the design and manufacturing of wired and wireless connectivity solutions from November 2000 to August 2004. From July 1999 to November 2000, Mr. Swearingen served as Chief Executive Officer of Quantex Microsystems, a direct provider of personal computers, servers, and Internet infrastructure products. Mr. Swearingen has also held senior management positions at National Semiconductor, Cyrix, and Digital Equipment Corp.

Alex Wong has been Senior Vice President of World Wide Operations of our company since July 2010. Mr. Wong served as Vice President of World Wide Operations of our company from September 2006 to July 2010. From 2003 to 2006, Mr. Wong served our company as Managing Director of Hong Kong and Director of Operations. Prior to joining our company, Mr. Wong held various management positions with National Semiconductor Corporation, including General Manager for National Joint Ventures in China and Hong Kong and Director of Corporate Business Development. Mr. Wong holds a Bachelor of Science degree in Computer Science from California State University at Northridge and a Masters in Business Administration from the University of East Asia, Macau.

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Mark N. Vena has been Senior Vice President and General Manager, PC Products of our company since July 2010. Mr. Vena served as Vice President, PC Business of our company from April 2007 to July 2010. Prior to joining our company, Mr. Vena served as Vice President of Worldwide Marketing of Alienware from October 2005 to March 2007. From 1982 to 2005, Mr. Vena held various business and product marketing leadership positions at Dell, Compaq, Epson, and IBM. Mr. Vena holds a Bachelor of Arts degree in History, cum laude, from Boston College.

There are no arrangements, understandings, or family relationships pursuant to which our executive officers were selected. There are no related party transactions between us and our executive officers. We have entered into indemnification agreements with our officers and directors.

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ITEM 1A. RISK FACTORS

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

We currently depend on our human interface solutions for the notebook computer market and digital lifestyle product markets for substantially all of our revenue, and any downturn in sales of these products would adversely affect our business, revenue, operating results, and financial position.

We currently depend on our human interface solutions for the notebook computer market and digital lifestyle product markets for substantially all of our revenue, and any downturn in sales of these products would adversely affect our business, revenue, operating results, and financial position. Net revenue for our human interface solutions for our PC and digital lifestyle products, primarily mobile smartphones and feature phones, accounted for approximately 51% and 49%, respectively, of our net revenue for fiscal 2012, 48% and 52%, respectively, of our net revenue for fiscal 2011, and 59% and 41%, respectively, of our net revenue for fiscal 2010.

A softening of demand in the notebook portion of the PC market, a reduced level of our participation in the notebook portion of the PC market, or a slowdown of growth in the notebook portion of the PC market because of consumer preferences, the emergence of tablet or slate devices and ultrabooks not including our product solutions, or other factors would cause our business, operating results, and financial position to suffer. Similarly, the lack of market acceptance of our product solutions compared with competitive products in the mobile smartphone and feature phone market or our inability to be a leading supplier of human interface solutions for mobile smartphone and feature phone products would have a negative effect on our business, operating results, and financial position.

Net revenue from our human interface solutions for digital lifestyle products has been volatile in the past, and may not increase or be less volatile in the future.

Net revenue from our human interface solutions for digital lifestyle products, particularly mobile smartphones and feature phones and portable digital music players, has been volatile in the past. Our net revenue from our human interface solutions for digital lifestyle products may not increase or be less volatile in the future. Net revenue from our human interface solutions for digital lifestyle products was $270.1 million in fiscal 2012, $309.1 million in fiscal 2011, and $209.2 million in fiscal 2010. Our interface business for digital lifestyle products faces many uncertainties, including our success in enhancing our market share in evolving markets dominated by a limited number of OEMs and market acceptance of our product solutions over competitive product solutions. Our inability to address these uncertainties successfully and to be a leading supplier of human interfaces for digital lifestyle products would negatively affect our business.

We have transitioned a significant portion of our product solutions for the mobile smartphone and feature phone market in fiscal 2012 from full module solutions to chip or tail solutions, which has resulted in lower revenue.

We have transitioned a significant portion of our product solutions for the mobile smartphone and feature phone market from full module solutions to chip or tail solutions, which has resulted in lower revenue. Historically, we provided a significant portion of our mobile smartphone and feature phone customers with a complete touchscreen module, including our proprietary controller ASIC, associated electronics, firmware, software, and systems engineering and design as well as a third-party capacitive sensor and module assembly. As a result of industry factors, many of our customers are moving to either a chip solution in which we offer our proprietary controller ASIC, firmware, software, and systems engineering and design with the customer utilizing third-parties for the associated electronics, sensor, and module assembly or a tail solution in which we offer our proprietary controller ASIC, associated electronics, firmware, software, and systems engineering and design with the customer utilizing third-parties for the sensor and module assembly. During fiscal 2012, our full module solutions for the mobile smartphone and feature phone market declined from approximately 50% of quarterly mobile product revenue in the prior year to approximately 1% of quarterly mobile product revenue. We anticipate that chip solutions will constitute an increased share of mobile product revenue in fiscal 2013 compared with fiscal 2012. Our chip solutions for mobile smartphones and feature phones typically generate lower revenue than our full module solutions.

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Our historical financial performance is based on net revenue generated from our human interface solutions for the notebook computer market and, more recently, our human interface solutions for digital lifestyle products, and may not be indicative of our future performance.

Our historical financial performance is based on net revenue generated from our human interface solutions for the notebook computer market and, more recently, our human interface solutions for digital lifestyle products, particularly mobile smartphones and feature phones. As recently as fiscal 2008, we derived a large majority of our net revenue from the sale of our TouchPad products for notebook computers. In fiscal 2011, net revenue from our human interface solutions for digital lifestyle products exceeded net revenue from our PC product solutions for the first time in our history. In fiscal 2012, net revenue from our human interface solutions for digital lifestyle products decreased and was less than our net revenue from our PC product solutions. We expect a relatively even revenue mix between sales of our human interface solutions for notebook computers and our human interface solutions for mobile smartphones and feature phones. However, we have a more limited operating history in the markets for digital lifestyle products, including mobile smartphones and feature phones, and limited operating history for other products, such as tablets and ultrabooks. In addition, in fiscal 2012 we transitioned our product solutions for the mobile smartphone and feature phone market from full module solutions to chip or tail solutions and anticipate that chip solutions will be the primary solution during fiscal 2013.

We cannot assure you that our human interface business for new markets will be successful or that we will be able to continue to generate significant revenue from these markets.

Our product solutions may not be successful in new markets despite the fact that these product solutions are capable of enabling people to interact more easily and intuitively with a wide variety of mobile computing, communication, entertainment, and electronic devices in addition to notebook computers and mobile smartphones and feature phones. We are currently targeting the rapidly developing tablet market and the ultrabook portion of the PC market. Our success in these markets will depend primarily on the success in these markets of the products of our OEM customers who utilize our solutions for their products. As a result, we do not know whether our product solutions for the tablet market and the ultrabook portion of the PC market will result in a substantial portion of our revenue on a consistent basis. Our inability to become a leading supplier in the tablet market and the ultrabook portion of the PC market would result in a slower growth rate than we currently anticipate. The failure to succeed in the tablet market and the ultrabook portion of the PC market would result in no return on the substantial investments we have made to date and plan to make in the future to penetrate such markets.

Various target markets for our interfaces, such as tablets, ultrabooks, and automotive touchscreens, may develop slower than anticipated or could utilize competing technologies. The markets for certain of these products depend in part upon the continued development and deployment of wireless and other technologies, which may or may not address the needs of users of these products.

Our ability to generate significant revenue from new markets will depend on various factors, including the following:

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

Many manufacturers of these products have well-established relationships with competitive suppliers. Our ongoing success in these markets will require us to offer better performance alternatives to other solutions at competitive costs. The failure of any of these target markets to develop as we expect, or our failure to serve these markets to a significant extent, will impede our sales growth and could result in substantially reduced earnings. We cannot predict the size or growth rate of these markets or the market share we will achieve in these markets in the future.

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Market acceptance of our customers existing or new products that utilize our human interface solution may decline or may not develop and, as a result, our revenue may decline or may not increase.

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

Competitive advances by OEMs in the PC or digital lifestyle product markets that do not utilize our human interface solutions broadly in their product offerings at the expense of our OEM customers could result in lost sales opportunities. Within the digital lifestyle product markets, the mobile smartphone market has become an important factor in our operating results. Any failure to expand our presence in this market, a significant slowdown in the use of our human interface solutions by our customers in this market, the reduced demand for our customers products in this market, or a slowdown of growth in this market would adversely affect our revenue.

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

Because our success depends on the widespread market acceptance of our OEM customers products, we must continue to maintain our relationships with the leading notebook computer OEMs and expand our relationships with mobile smartphone and feature phone and tablet OEMs. In addition, we must identify areas of significant growth potential in other markets, establish relationships with OEMs in those markets, and assist those OEMs in developing products that use our interface product solutions. Our failure to identify potential growth opportunities, particularly in the mobile smartphone and feature phone market, the tablet market, and the ultrabook portion of the PC market, or establish and maintain relationships with OEMs in those markets, would prevent our business from growing in those markets.

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

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

The loss of revenue from one or more large customers could harm our business, financial condition, and operating results.

In fiscal 2012, one customer, TPK, accounted for 12% of our net revenue. In fiscal 2011, no customer accounted for more than 10% of our net revenue. Additionally, receivables from Compal and Wistron consisted of 14% and 12% of accounts receivable, respectively, at the end of fiscal 2012. Receivables from Compal were 12% of accounts receivable at the end of fiscal 2011. There were no other customers who represented more than 10% of our accounts receivable at the end of fiscal 2012 or 2011.

BYD, Compal, Inventec, LGIT, Pegatron, Quanta, TPK, Wintek, and Wistron are some of the contract manufacturers that serve our OEM customers. Any material delay, cancellation, or reduction of orders from any one or more of these contract manufacturers or the OEMs they serve could harm our business, financial condition, and operating results. The adverse effect would be more substantial if our other customers do not increase their orders or if we are unsuccessful in generating orders for human interface solutions from new customers. Many of these contract manufacturers sell to the same OEMs, and therefore our concentration with certain OEMs may be higher than with any individual contract manufacturer. Concentration in our customer base may make fluctuations in revenue and earnings more severe and make business planning more difficult.

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

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

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

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

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

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

From time to time, materials and components used in our product solutions or in other aspects of our customers products have been subject to allocation because of shortages of these materials and components. Future shortages of materials and components, including potential supply constraints of silicon, could cause delayed shipments, customer dissatisfaction, and lower revenue.

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

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

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

Our customers do not provide us with firm, long-term volume purchase commitments, but instead issue purchase orders. As a result, customers can cancel purchase orders or reduce or delay orders at any time. The cancellation, delay, or reduction of customer purchase orders could result in reduced revenue, excess inventory, and unabsorbed overhead. We have an established presence in the notebook computer market and have only recently established a presence in the digital lifestyle product markets. Our success in the digital lifestyle product markets, including those for mobile smartphones and feature phones, the tablet market, and the ultrabook portion of the PC market, require us to establish the value added by our products to OEMs, including those that have traditionally used other solutions. All of the markets we serve are subject to severe competitive pressures, rapid technological change, and product obsolescence, which increase our inventory and overhead risks, resulting in increased costs.

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

We serve intensely competitive markets that are characterized by price erosion, rapid technological change, and competition from major domestic and international companies. This intense competition could result in pricing pressures, lower sales, reduced margins, and lower market share. Depressed economic conditions, a slowdown in the PC market, the emergence of new products, such as tablet or slate devices and ultrabooks not including our product solutions, rapid changes in the mobile smartphone and feature phone market, and competitive pressures may result in lower demand for our product solutions, pricing pressures, and reduced unit margins.

Any movement away from high-quality, custom designed, feature-rich human interface solutions to lower priced alternatives would adversely affect our business. Some of our competitors, particularly in the markets for digital lifestyle products and other electronic devices, have greater market recognition, larger customer bases, and substantially greater financial, technical, marketing, distribution, and other resources than we possess and that afford them competitive advantages. As a result, they may be able to devote greater resources to the promotion and sale of products, to negotiate lower prices for raw materials and components, to deliver competitive products at lower prices, and to introduce new product solutions and respond to customer requirements more quickly than we can. Our competitive position could suffer if one or more of our customers determine not to utilize our custom engineered, total solutions approach and instead decide to design and manufacture their own interfaces, to contract with our competitors, or to use alternative technologies.

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

- our success in designing and introducing new human interface solutions, including those implementing new technologies;
- our ability to predict the evolving needs of our customers and to assist them in incorporating our technologies into their new products;
- our ability to meet our customers requirements for low power consumption, ease of use, reliability, durability, and small form factor;
- our ability to meet our customers price and performance requirements;
- the quality of our customer service and support;
- the rate at which customers incorporate our human interface solutions into their own products;
- product or technology introductions by our competitors; and

foreign currency fluctuations, which may cause a foreign competitor s products to be priced significantly lower than our product solutions.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our manufacturing and assembly operations are primarily conducted in China, Taiwan, and Thailand by contract manufacturers and semiconductor fabricators. We have sales and logistics operations in Hong Kong, and sales and engineering design support operations in China, Japan, Korea, Switzerland, and Taiwan. These international operations expose us to various economic, political, and other risks that could adversely affect our operations and operating results, including the following:

- difficulties and costs of staffing and managing a multi-national organization,
- unexpected changes in regulatory requirements,
- differing labor regulations,

potentially adverse tax consequences,

tariffs and duties and other trade barrier restrictions,

possible employee turnover or labor unrest,

greater difficulty in collecting accounts receivable,

the burdens and costs of compliance with a variety of foreign laws,

the volatility of currency exchange rates,

potentially reduced protection for intellectual property rights, and

political or economic instability in certain parts of the world.

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

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

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

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

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

We transact business predominantly in U.S. dollars and bill and collect our sales in U.S. dollars. A weakening of the dollar could cause our overseas vendors to require renegotiation of either the prices or currency we pay for their goods and services. In the future, customers may negotiate pricing and make payments in non-U.S. currencies. For fiscal 2012, approximately 9% of our costs were denominated in non-U.S. currencies, including Canadian dollars, Hong Kong dollars, British pounds, Taiwan dollars, Japanese yen, Korean won, Chinese yuan, and Swiss francs.

If our overseas vendors or customers require us to transact business in non-U.S. currencies, fluctuations in foreign currency exchange rates could affect our cost of goods, operating expenses, and operating margins and could result in exchange losses. In addition, currency devaluation can result in a loss to us if we hold deposits of that currency. Hedging foreign currencies can be difficult, especially if the currency is not freely traded. We cannot predict the impact of future exchange rate fluctuations on our operating results. We currently do not hedge any foreign currencies.

A majority of our contract manufacturers and semiconductor fabricators are located in China, Taiwan, and Thailand, and most of our customers are located in Asia, increasing the risk that a natural disaster, labor strike, war, or political unrest in those countries or that region would disrupt our operations.

A majority of our contract manufacturers and semiconductor fabricators are located in China, Taiwan, and Thailand, and most of our customers are located in Asia. Events outside of our control, such as earthquakes, fires, floods, or other natural disasters, or political unrest, war, labor strikes, or work stoppages in these countries, would disrupt their operations, which would impact our business. The risk of earthquakes and tsunamis in the Pacific Rim, including Japan (such as the March 2011 earthquake and tsunamis) and Taiwan is significant because of the proximity to major earthquake fault lines. An earthquake or tsunami could cause significant delays in shipments of our product solutions until we are able to shift our outsourced operations. Further, a variety of political factors, such as political unrest in Thailand or political tension between North Korea and South Korea, could disrupt our operations and our ability to meet our customers production schedules. If any of these events occur, we may not be able to obtain alternative capacity. Failure to secure alternative capacity could cause a delay in the shipment of our product solutions, which would cause our revenue to fluctuate or decline.

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

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

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

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

- the cyclicality of the markets we serve;
- the timing and size of orders;
- order push-outs or cancellations;
- the volume of orders relative to our ability to deliver;
- product introductions and market acceptance of new products or new generations of products;
- the timing of product transitions;
- evolution in the life cycles of our customers products;
- timing of expenses in anticipation of future orders;
- changes in product mix;
- availability of manufacturing and assembly services;
- availability of necessary components and materials;
- changes in cost and availability of labor and components;
- the expanded use of high-cost, third-party components in the products we sell;
- timely delivery of product solutions to customers;
- pricing, performance, and availability of competitive products;

introduction of new technologies into the markets we serve;

emergence of new competitors;

pressures on selling prices;

the absolute and relative levels of corporate enterprise and consumer notebook purchases;

our success in serving new markets; and

changes in economic conditions.

Accordingly, period-to-period comparisons are not an indicator of our future performance. Negative or unanticipated fluctuations in our operating results may result in a decline in the price of our stock.

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

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

successfully hire, train, retain, and motivate additional employees, including employees outside the United States;

efficiently plan and expand our facilities to meet increased headcount requirements;

enhance our global operational, financial, and management infrastructure; and

expand our development and production capacity.

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In connection with the expansion and diversification of our product and customer base, we are increasing our personnel and making other expenditures to meet demand for our expanding product offerings, including offerings in the notebook computer and digital lifestyle product markets. Increases in the demand for our products will require further expansion of our traditional notebook computer business as well as an increasing presence in the digital lifestyle product markets, including mobile smartphones and feature phones, the tablet market, and the ultrabook portion of the PC market. To date, our sales of human interface solutions for mobile smartphones and feature phones have varied significantly from quarter to quarter. Risks are further increased because customers do not commit to firm production schedules for more than a short time in advance. Any increase in expenses or investments in infrastructure and facilities in anticipation of future orders that do not materialize would adversely affect our profitability. Our customers also may require rapid increases in design and production services that place an excessive short-term burden on our resources and the resources of our third-party manufacturers. If we cannot manage our growth effectively, our business and operating results could suffer.

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

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

In the future, if we are unable to obtain stockholder approval of additional shares for our share-based compensation award programs we could be at a competitive disadvantage in the marketplace for qualified personnel or may be required to increase the cash element of our compensation program.

Our compensation program, which includes cash and share-based compensation award components, has been instrumental in attracting, hiring, motivating, and retaining qualified personnel. As a Northern California-based high-growth technology company, competition for qualified personnel in our industry is extremely intense, particularly for engineering and other technical personnel. Our success depends on our continued ability to attract, hire, motivate, and retain qualified personnel and our share-based compensation award programs provide us with a competitive compensatory tool for this purpose. The continued use of our share-based compensation program is necessary for us to compete for engineering and other technical personnel and professional talent without significantly increasing cash compensation costs. In the future, if we are unable to obtain stockholder approval of additional shares for our share-based compensation award programs we could be at a competitive disadvantage in the marketplace for qualified personnel or may be required to increase the cash element of our compensation program.

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

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

Patents may not issue from the patent applications that we have filed or may file in the future. Our issued patents may be challenged, invalidated, or circumvented, and claims of our patents may not be of sufficient scope or strength, or issued in the proper geographic regions, to provide meaningful protection or any commercial advantage. In addition, certain of our patents will expire within several years.

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We have not applied for, and do not have, any copyright registration on our technologies or products. We have applied to register certain of our trademarks in the United States and other countries. There can be no assurance that we will obtain registrations of principle or other trademarks in key markets. Failure to obtain registrations could compromise our ability to protect fully our trademarks and brands and could increase the risk of challenge from third parties to our use of our trademarks and brands.

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

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

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

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

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

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

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

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

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

We develop complex products in an evolving marketplace and generally warrant our products for a period of 12 months from the date of sale. Despite testing by us and our customers, defects may be found in existing or new products. Manufacturing errors or product defects could result in a delay in recognition or loss of revenue, loss of market share, or failure to achieve market acceptance. Additionally, defects could result in financial or other damages to our customers; cause us to incur significant warranty, support, and repair costs; and divert the attention of our engineering personnel from key product development efforts. In such circumstances, our customers could also seek and obtain damages from us for their losses. A product liability claim brought against us, even if unsuccessful, would likely be time-consuming and costly to defend. The occurrence of such problems would likely harm our business.

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

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

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

We expect to pursue opportunities to acquire other businesses and technologies in order to complement our current human interface solutions, expand the breadth of our markets, enhance our technical capabilities, or otherwise offer growth opportunities. We cannot accurately predict the timing, size, and success of any future acquisitions. We may be unable to identify suitable acquisition candidates or to complete the acquisitions of candidates that we identify. Increased competition for acquisition candidates or increased asking prices by acquisition candidates may increase purchase prices for acquisitions to levels beyond our financial capability or to levels that would not result in the returns required by our acquisition criteria. Acquisitions also may become more difficult in the future as we or others acquire the most attractive candidates. Unforeseen expenses, difficulties, and delays frequently encountered in connection with rapid expansion through acquisitions could inhibit our growth and negatively impact our operating results. If we make any future acquisitions, we could issue stock that would dilute existing stockholders percentage ownership, incur substantial debt, assume contingent liabilities, or experience higher operating expenses.

As a part of any potential acquisition, we may engage in discussions with various companies. In connection with these discussions, we and each potential acquisition candidate exchange confidential operational and financial information, conduct due diligence inquiries, and consider the structure, terms, and conditions of the potential acquisition. In certain cases, the prospective acquisition candidate agrees not to discuss a potential acquisition with any other party for a specific period of time and agrees to take other actions designed to enhance the possibility of the acquisition, such as preparing audited financial information. Potential acquisition discussions frequently take place over a long period of time and involve difficult business integration and other issues. As a result of these and other factors, a number of potential acquisitions that from time to time appear likely to occur do not result in binding legal agreements and are not consummated, but may result in increased legal and consulting costs.

We cannot assure you that we would be successful in overcoming problems encountered in connection with any acquisitions, and our inability to do so could disrupt our operations, result in goodwill or intangible asset impairment charges, and adversely affect our business. Our experience in acquiring other businesses and technologies is limited. We did, however, recently acquire Pacinian Corporation and the Video Display Operation of Integrated Device Technology, Inc.

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Any acquisitions that we undertake in the future could be difficult to integrate, disrupt our business, and harm our operations.

In order to pursue a successful acquisition strategy, we may need to integrate the operations of acquired businesses into our operations, including centralizing certain functions to achieve cost savings and pursuing programs and processes that leverage our revenue and growth opportunities. The integration of the management, operations, and facilities of acquired businesses with our own could involve difficulties, which could adversely affect our growth rate and operating results. We are in the process of integrating our acquisitions of Pacinian Corporation and the Video Display Operation of Integrated Device Technology, Inc.

We may be unable to complete effectively an integration of the management, operations, facilities, and accounting and information systems of acquired businesses with our own; to manage efficiently the combined operations of the acquired businesses with our operations; to achieve our operating, growth, and performance goals for acquired businesses; to achieve additional revenue as a result of our expanded operations; or to achieve operating efficiencies or otherwise realize cost savings as a result of anticipated acquisition synergies. The integration of acquired businesses involves numerous risks, including the following: