

SYNAPTICS INC

FORM 10-Q (Quarterly Report)

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

FORM 10-Q

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

For the quarterly period ended March 31, 2012

Commission file number 000-49602

SYNAPTICS INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

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

3120 Scott Blvd.
Santa Clara, California 95054
(Address of principal executive offices) (Zip code)

(408) 454-5100
(Registrant's telephone number, including area code)

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

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

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

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

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

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

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FOR THE QUARTER ENDED MARCH 31, 2012
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PART I—FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

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

(in thousands, except share data)

(unaudited)

| | <u>March 31, 2012</u> | <u>June 30, 2011</u> |
|--|---------------------------|--------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 324,118 | \$ 247,153 |
| Accounts receivable, net of allowances of \$503 at March 31, 2012 and \$709 at June 30, 2011 | 95,493 | 93,808 |
| Inventories | 27,975 | 28,850 |
| Prepaid expenses and other current assets | 4,476 | 4,373 |
| Total current assets | 452,062 | 374,184 |
| Property and equipment at cost, net of accumulated depreciation of \$35,785 and \$29,443 at March 31, 2012 and June 30, 2011, respectively | 24,800 | 26,222 |
| Goodwill | 1,927 | 1,927 |
| Non-current investments | 18,088 | 25,876 |
| Other assets | 26,333 | 27,992 |
| | <u>\$ 523,210</u> | <u>\$ 456,201</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 47,062 | \$ 44,930 |
| Accrued compensation | 11,469 | 13,210 |
| Income taxes payable | 8,788 | 11,808 |
| Other accrued liabilities | 27,598 | 22,813 |
| Total current liabilities | 94,917 | 92,761 |
| Notes payable | 2,305 | 2,305 |
| Other liabilities | 23,600 | 21,142 |
| Stockholders' equity: | | |
| Common stock: | | |
| \$0.001 par value; 120,000,000 shares authorized, 48,432,280 and 46,832,208 shares issued, and 33,674,481 and 33,465,732 shares outstanding, at March 31, 2012 and June 30, 2011, respectively | 48 | 47 |
| Additional paid-in capital | 460,714 | 406,653 |
| Treasury stock: 14,757,799 and 13,366,476 common treasury shares at March 31, 2012 and June 30, 2011, respectively, at cost | (385,666) | (352,142) |
| Accumulated other comprehensive income | 2,533 | 2,520 |
| Retained earnings | 324,759 | 282,915 |
| Total stockholders' equity | 402,388 | 339,993 |
| | <u>\$ 523,210</u> | <u>\$ 456,201</u> |

See notes to condensed consolidated financial statements (unaudited).

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

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

See notes to condensed consolidated financial statements (unaudited).

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

| | Nine Months Ended March 31, | |
|---|--------------------------------|------------------|
| | 2012 | 2011 |
| Cash flows from operating activities | | |
| Net income | \$ 41,844 | \$ 49,873 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Share-based compensation costs | 25,663 | 25,708 |
| Deferred taxes | 40 | (2,300) |
| Tax benefit realized from share-based compensation | — | 3,155 |
| Excess tax benefit from share-based compensation | (2,032) | (3,155) |
| Depreciation of property and equipment | 7,978 | 8,184 |
| Impairment of property and equipment | 1,269 | — |
| Impairment recovery of investments | (59) | (20) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (1,685) | 3,848 |
| Inventories | 875 | (13,957) |
| Prepaid expenses and other current assets | (103) | 120 |
| Other assets | 1,325 | (410) |
| Accounts payable | 2,132 | (5,511) |
| Accrued compensation | (1,741) | 373 |
| Income taxes payable | (731) | (3,259) |
| Other accrued liabilities | 4,954 | 1,836 |
| Net cash provided by operating activities | <u>79,729</u> | <u>64,485</u> |
| Cash flows from investing activities | | |
| Proceeds from sales and maturities of non-current investments | 7,860 | 350 |
| Purchases of property and equipment | (7,825) | (9,623) |
| Net cash provided by (used in) investing activities | <u>35</u> | <u>(9,273)</u> |
| Cash flows from financing activities | | |
| Purchases of treasury stock | (33,524) | (40,210) |
| Proceeds from issuance of shares | 31,294 | 20,581 |
| Excess tax benefit from share-based compensation | 2,032 | 3,155 |
| Payroll taxes for deferred stock units | (2,601) | (2,311) |
| Net cash used in financing activities | <u>(2,799)</u> | <u>(18,785)</u> |
| Net increase in cash and cash equivalents | 76,965 | 36,427 |
| Cash and cash equivalents at beginning of period | <u>247,153</u> | <u>209,858</u> |
| Cash and cash equivalents at end of period | <u>\$324,118</u> | <u>\$246,285</u> |
| Supplemental disclosures of cash flow information | | |
| Cash paid for income taxes | <u>\$ 11,787</u> | <u>\$ 9,459</u> |

See notes to condensed consolidated financial statements (unaudited).

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

1. Basis of Presentation

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

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

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

Use of Estimates

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

2. Revenue Recognition

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

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3. Net Income Per Share

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

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

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

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

4. Fair Value of Cash Equivalents and Investments

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

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

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

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

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

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

5. Auction Rate Securities

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

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

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

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

Contractual maturities for our ARS investments are generally greater than five years, with fair value of \$9.5 million maturing from calendar years 2015 to 2017, \$6.4 million maturing from calendar years 2040 to 2045, and \$2.1 million having no stated maturity. Of our ARS investments, \$11.1 million par value are investment grade, and the remaining \$18.5 million par value are below investment grade.

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

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

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

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

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

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

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

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6. Inventories

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

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

7. Product Warranties, Indemnifications, and Contingencies

Product Warranties

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

Indemnifications

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

Contingencies

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

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

8. Share-Based Compensation

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

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|--|---------------------------------|----------------|--------------------------------|-----------------|
| | 2012 | 2011 | 2012 | 2011 |
| Cost of revenue | \$ 313 | \$ 355 | \$ 903 | \$ 1,032 |
| Research and development | 3,769 | 3,377 | 11,209 | 10,129 |
| Selling, general, and administrative | 4,915 | 4,619 | 13,551 | 14,547 |
| Total | <u>\$8,997</u> | <u>\$8,351</u> | <u>\$25,663</u> | <u>\$25,708</u> |
| Income tax benefit on share-based compensation | <u>\$2,539</u> | <u>\$2,347</u> | <u>\$ 7,419</u> | <u>\$ 7,426</u> |

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

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Stock Options

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

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

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

Deferred Stock Units

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

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

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

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

Employee Stock Purchase Plan

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

| | |
|---------------------------------|----------|
| Shares purchased | 110,200 |
| Weighted average purchase price | \$ 24.87 |
| Cash received | \$ 2,741 |
| Aggregate intrinsic value | \$ 970 |

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9. Income Taxes

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

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

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

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

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

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

Unrecognized Tax Benefits

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

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

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

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

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10. Segment, Customers, and Geographic Information

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

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

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

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

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

* Less than 10%

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

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

* Less than 10%

11. Comprehensive Income

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

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Our comprehensive income was as follows (in thousands):

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

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

Forward-Looking Statements and Factors That May Affect Results

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

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

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

Overview

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

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

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

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

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

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

Critical Accounting Policies and Estimates

There have been no significant changes in our critical accounting policies and estimates during the nine months ended March 31, 2012 compared with our critical accounting policies and estimates disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2011.

Recent Accounting Pronouncements Not Yet Effective

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

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

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Results of Operations

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

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

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

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

| | Three Months Ended March 31, | | Percentage Point Increase/ (Decrease) | Nine Months Ended March 31, | | Percentage Point Increase/ (Decrease) |
|--|---------------------------------|---------------|--|--------------------------------|---------------|--|
| | 2012 | 2011 | | 2012 | 2011 | |
| PC applications | 49.4% | 43.3% | 6.1% | 49.0% | 46.5% | 2.5% |
| Digital lifestyle product applications | 50.6% | 56.7% | (6.1%) | 51.0% | 53.5% | (2.5%) |
| Net revenue | <u>100.0%</u> | <u>100.0%</u> | | <u>100.0%</u> | <u>100.0%</u> | |
| Gross margin | 47.2% | 40.5% | 6.7% | 46.8% | 40.7% | 6.1% |
| Operating expenses: | | | | | | |
| Research and development | 22.3% | 18.2% | 4.1% | 21.3% | 17.0% | 4.3% |
| Selling, general, and administrative | 13.7% | 12.1% | 1.6% | 12.8% | 11.4% | 1.4% |
| Operating income | 11.2% | 10.1% | 1.1% | 12.7% | 12.4% | 0.3% |
| Income before provision for income taxes | 11.4% | 10.3% | 1.1% | 12.9% | 12.5% | 0.4% |
| Provision for income taxes | 2.7% | 0.8% | 1.9% | 2.7% | 1.5% | 1.2% |
| Net income | <u>8.7%</u> | <u>9.5%</u> | <u>(0.8%)</u> | <u>10.2%</u> | <u>11.0%</u> | <u>(0.8%)</u> |

Net Revenue.

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

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

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

Gross Margin.

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

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

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

Operating Expenses.

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

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

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

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

Provision for Income Taxes.

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

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

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

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

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

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

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

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Liquidity and Capital Resources

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

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

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

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

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

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

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

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

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Liquidity and Capital Resources. We believe our existing cash and cash equivalents and anticipated cash flows from operating activities will be sufficient to meet our working capital and other cash requirements for at least the next 12 months. Our future capital requirements will depend on many factors, including our revenue, the timing and extent of spending to support product development efforts, costs related to protecting our intellectual property, the expansion of sales and marketing activities, the timing of introductions of new products and enhancements to existing products, the costs to ensure access to adequate manufacturing capacity, the costs of maintaining sufficient space for our expanding workforce, the continuing market acceptance of our product solutions, our common stock repurchase program, and the amount and timing of our investments in, or acquisitions of, other technologies or companies. Further equity or debt financing may not be available to us on acceptable terms or at all. If sufficient funds are not available or are not available on acceptable terms, our ability to take advantage of business opportunities or to respond to competitive pressures could be limited or severely constrained.

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

Contractual Obligations and Commercial Commitments

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

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

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

PART II—OTHER INFORMATION

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

Issuer Purchases of Equity Securities

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

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ITEM 6. EXHIBITS

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

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

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SIGNATURES

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

SYNAPTICS INCORPORATED

Date: May 4, 2012

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

Date: May 4, 2012

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

SYNAPTICS INCORPORATED
AMENDED AND RESTATED
2010 INCENTIVE COMPENSATION PLAN

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

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

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

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

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

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

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

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

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

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

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

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

(k) “ **Continuous Service** ” means uninterrupted provision of services to the Company in any capacity of Employee, Director, or Consultant. Continuous Service shall not be considered to be interrupted in the case of (i) any approved leave of absence, (ii) transfers among the Company, any Related Entities, or any successor entities, in any capacity of Employee Director, or Consultant, or (iii) any change in status as long as the individual remains in the service of the Company or a Related Entity in any capacity of Employee, Director, or Consultant (except as otherwise provided in the Option Agreement). An approved leave of absence shall include sick leave, military leave, or any other authorized personal leave.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Administration .

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

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

(c) **Limitation of Liability** . The Committee, and each member thereof, shall be entitled to, in good faith, rely or act upon any report or other information furnished to him or her by any Executive Officer, other officer or Employee, the Company’s independent auditors, Consultants or any other agents assisting in the administration of the Plan. Members of the Committee, and any officer or Employee acting at the direction or on behalf of the Committee, shall not be personally liable for any action or determination taken or made in good faith with respect to the Plan, and shall, to the extent permitted by law, be fully indemnified and protected by the Company with respect to any such action or determination.

4. Stock Subject to Plan .

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

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

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

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

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

6. Specific Terms of Awards .

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

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

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

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

(iii) **Exercise Price** .

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

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

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

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

(A) the Option shall not be exercisable more than seven years after the date such Incentive Stock Option is granted; provided, however, that if a Participant owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company or any Parent Corporation and the Incentive Stock Option is granted to such Participant, the term of the Incentive Stock Option shall be (to the extent required by the Code at the time of the grant) for no more than five years from the date of grant; and

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

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

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

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

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

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

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

(ii) **Forfeiture** . Except as otherwise determined by the Committee at the time of the Award, upon termination of a Participant's Continuous Service during the applicable restriction period, the Participant's Restricted Stock that is at that time subject to restrictions shall be forfeited (or, in accordance with Section 6(b)(vi), reacquired by the Company); provided that the Committee may provide, by rule or regulation or in any Award agreement, or may determine in any individual case, that restrictions or forfeiture conditions relating to Restricted Stock shall be waived in whole or in part in the event of terminations resulting from specified causes, and the Committee may in other cases waive in whole or in part the forfeiture of Restricted Stock.

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

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

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

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

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

(iii) **Dividend Equivalents** . Unless otherwise determined by the Committee at date of grant, any Dividend Equivalents that are granted with respect to any Award of Deferred Stock Units shall be either (A) paid with respect to such Deferred Stock Units at the dividend payment date in cash or in shares of unrestricted Stock having a Fair Market Value equal to the amount of such dividends, or (B) deferred with respect to such Deferred Stock Units and the amount or value thereof automatically deemed reinvested in additional Deferred Stock Units, other Awards or other investment vehicles, as the Committee shall determine or permit the Participant to elect.

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

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

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

7. Performance and Annual Incentive Awards .

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

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

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

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

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

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

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

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

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

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

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

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

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

8. Certain Provisions Applicable to Awards or Sales .

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

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

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

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

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

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

9. Change in Control .

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

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

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

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

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

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

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

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

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

10. General Provisions .

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

(b) **Limits on Transferability; Beneficiaries** .

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

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

(c) **Adjustments** .

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

(ii) **Adjustments in Case of Certain Corporate Transactions** . In the event of a proposed sale of all or substantially all of the Company's assets or any reorganization, merger, consolidation, or other form of corporate transaction in which the Company does not survive, or in which the shares of Stock are exchanged for or converted into securities issued by another entity, then the successor or acquiring entity or an affiliate thereof may, with the consent of the Committee, assume each outstanding Option or substitute an equivalent option or right. If the successor or acquiring entity or an affiliate thereof, does not cause such an assumption or substitution, then each Option shall terminate upon the consummation of sale, merger, consolidation, or other corporate transaction. The Committee shall give written notice of any proposed transaction referred to in this Section I 0(c)(ii) a reasonable period of time prior to the closing date for such transaction (which notice may be given either before or after the approval of such transaction), in order that Optionees may have a reasonable period of time prior to the closing date of such transaction within which to exercise any Options that are then exercisable (including any Options that may become exercisable upon the closing date of such transaction). An Optionee may condition his exercise of any Option upon the consummation of the transaction.

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

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

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

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

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

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

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

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

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

Certification of Chief Executive Officer

I, Richard A. Bergman, certify that:

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

Date: May 4, 2012

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

Certification of Chief Financial Officer

I, Kathleen A. Bayless, certify that:

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

Date: May 4, 2012

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

Section 1350 Certification of Chief Executive Officer

In connection with the Quarterly Report on Form 10-Q of Synaptics Incorporated (the "Company") for the quarterly period ended March 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard A. Bergman, Chief Executive Officer of the Company, certify, to the best of my knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Richard A. Bergman

Richard A. Bergman

Chief Executive Officer

May 4, 2012

Section 1350 Certification of Chief Financial Officer

In connection with the Quarterly Report on Form 10-Q of Synaptics Incorporated (the "Company") for the quarterly period ended March 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kathleen A. Bayless, Chief Financial Officer of the Company, certify, to the best of my knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Kathleen A. Bayless

Kathleen A. Bayless
Chief Financial Officer
May 4, 2012