SYNAPTICS Inc
Form 10-Q
January 31, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 24, 2016

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

For the transition period from to .

Commission file number 000-49602

SYNAPTICS INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware	77-0118518
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1251 McKay Drive

San Jose, California 95131

(Address of principal executive offices) (Zip code)

(408) 904-1100

(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.

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 January 26, 2017: 35,358,027

SYNAPTICS INCORPORATED

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED DECEMBER 24, 2016

TABLE OF CONTENTS

PART I—FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SYNAPTICS INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except par value and share amounts)

(unaudited)

	December 31, 2016	June 30, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 347.2	$ 352.2
Accounts receivable, net of allowances of $3.8 and $3.7 at December 31, 2016 and June 30, 2016, respectively	259.7	252.6
Inventories	159.7	146.4
Prepaid expenses and other current assets	38.6	28.9
Total current assets	805.2	780.1
Property and equipment at cost, net of accumulated depreciation of $95.4 and $87.3 at December 31, 2016 and June 30, 2016, respectively	115.1	112.7
Goodwill	206.8	206.8
Acquired intangibles, net	129.1	160.3
Non-current other assets	46.3	40.3
	$ 1,302.5	$ 1,300.2
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 168.7	$ 172.8
Accrued compensation	33.8	39.9
Income taxes payable	9.4	11.5
Acquisition-related liabilities	8.7	25.5
Other accrued liabilities	93.3	82.3
Current portion of long-term debt	15.0	18.8
Total current liabilities	328.9	350.8
Long-term debt, net of issuance costs	209.7	216.7
Acquisition-related liabilities	5.5	6.2
Deferred tax liabilities	4.2	9.0

Other long-term liabilities	13.9	12.5
Total liabilities	562.2	595.2
Stockholders' Equity:		
Common stock:		
$0.001 par value; 120,000,000 shares authorized, 60,129,621 and 59,532,148 shares issued, and 35,301,551 and 35,212,141 shares outstanding, at December 31, 2016 and June 30, 2016, respectively	0.1	0.1
Additional paid-in capital	964.2	928.6
Treasury stock: 24,828,070 and 24,320,007 common treasury shares at December 31, 2016 and June 30, 2016, respectively, at cost	(917.3)	(892.3)
Accumulated other comprehensive income	1.5	3.3
Retained earnings	691.8	665.3
Total stockholders' equity	740.3	705.0
	$ 1,302.5	$ 1,300.2

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

SYNAPTICS INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per share data)

(unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Net revenue	$461.3	$470.5	$847.5	$940.5
Cost of revenue	322.6	305.3	585.4	611.5
Gross margin	138.7	165.2	262.1	329.0
Operating expenses:				
Research and development	73.5	78.6	146.9	159.1
Selling, general, and administrative	32.3	41.0	66.9	81.2
Acquired intangibles amortization	2.4	4.6	6.9	9.3
Change in contingent consideration	-	(4.3)	-	(1.6)
Restructuring costs	1.7	-	7.0	1.9
Total operating expenses	109.9	119.9	227.7	249.9
Operating income	28.8	45.3	34.4	79.1
Interest and other income/(expense), net	0.6	(0.8)	(0.3)	(1.6)
Income before provision for income taxes	29.4	44.5	34.1	77.5
Provision for income taxes	6.6	9.5	7.6	18.7
Net income	$22.8	$35.0	$26.5	$58.8
Net income per share:				
Basic	$0.65	$0.96	$0.76	$1.61
Diluted	$0.64	$0.93	$0.74	$1.55
Shares used in computing net income per share:				
Basic	35.1	36.4	35.0	36.6
Diluted	35.9	37.7	35.7	38.0

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

SYNAPTICS INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

(unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Net income	$22.8	$35.0	$26.5	$58.8
Other comprehensive loss:				
Change in unrealized net loss on investments	(1.5)	(0.7)	(1.5)	(1.0)
Reclassification from accumulated other comprehensive income to interest income for accretion of non-current investments	-	(0.5)	(0.3)	(0.9)
Net current period-other comprehensive loss	(1.5)	(1.2)	(1.8)	(1.9)
Comprehensive income	$21.3	$33.8	$24.7	$56.9

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

SYNAPTICS INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(unaudited)

	Six Months Ended December 31,	
	2016	2015
Cash flows from operating activities		
Net income	$26.5	$58.8
Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation costs	30.2	25.9
Depreciation and amortization	16.6	15.5
Acquired intangibles amortization	31.2	37.9
Accretion and remeasurement of contingent consideration liability	-	(1.6)
Deferred taxes	(5.6)	(8.4)
Impairment of property and equipment	-	2.4
Non-cash interest	(0.3)	(0.9)
Amortization of debt issuance costs	0.6	0.4
Impairment recovery on investments	(1.9)	-
Foreign currency remeasurement loss	0.8	0.7
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable, net	(7.1)	(12.4)
Inventories	(13.3)	3.6
Prepaid expenses and other current assets	(10.8)	2.7
Other assets	2.5	2.4
Accounts payable	(2.0)	(17.7)
Accrued compensation	(5.9)	7.5
Acquisition-related liabilities	(16.8)	(9.6)
Income taxes payable	(4.6)	(4.6)
Other accrued liabilities	12.3	4.2
Net cash provided by operating activities	52.4	106.8
Cash flows from investing activities		
Proceeds from sales of investments	7.5	0.6
Purchase of intangible assets	-	(4.4)
Purchases of property and equipment	(20.3)	(15.1)
Investment in direct financing lease	(15.8)	-
Net cash used in investing activities	(28.6)	(18.9)
Cash flows from financing activities		
Payment of debt	(11.3)	(3.8)
Purchases of treasury stock	(25.0)	(125.0)
Proceeds from issuance of shares	13.1	19.5
Payment of debt issuance costs	-	(0.3)

Excess tax benefit from share-based compensation	1.0	4.7
Payroll taxes for deferred stock and market stock units	(4.7)	(11.2)
Net cash used in financing activities	(26.9)	(116.1)
Effect of exchange rate changes on cash and cash equivalents	(1.9)	0.3
Net decrease in cash and cash equivalents	(5.0)	(27.9)
Cash and cash equivalents at beginning of period	352.2	399.9
Cash and cash equivalents at end of period	$347.2	$372.0
Supplemental disclosures of cash flow information		
Cash paid for taxes	$15.8	$25.8
Cash refund on taxes	$9.9	$10.8
Non-cash investing and financing activities:		
Property and equipment received but unpaid	$1.8	$3.5

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

6

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. Certain information or footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to SEC rules and regulations. In our opinion, the financial statements include all adjustments, which are of a normal and recurring nature and necessary for the fair presentation of the results of the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the operating results for the full fiscal year or any future period. These financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended June 25, 2016.

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 2017 and 2016 years are 52-week periods ending on June 24, 2017 and June 25, 2016, respectively. The quarterly fiscal periods presented in this report were 13-week periods and 26-week periods for the three and six months ended December 24, 2016 and December 26, 2015, respectively. For simplicity, the accompanying condensed consolidated financial statements have been shown as ending on calendar quarter end dates as of and for all periods presented, 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, loss on purchase commitments, product warranty, accrued liabilities, share-based compensation costs, provision for income taxes, deferred income tax asset valuation allowances, uncertain tax positions, goodwill, intangible assets, investments, contingent consideration liability and loss contingencies. We base our estimates on historical experience, applicable laws and regulations, and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Foreign Currency Transactions and Foreign Exchange Contracts

The U.S. dollar is our functional and reporting currency. We remeasure our monetary assets and liabilities not denominated in the functional currency into U.S. dollar equivalents at the rate of exchange in effect on the balance sheet date. We measure and record non-monetary balance sheet accounts at the historical rate in effect at the date of transaction. We remeasure foreign currency expenses at the weighted average exchange rate in the month that the transaction occurred. Our foreign currency transactions and remeasurement gains and losses are included in selling, general, and administrative expenses in the condensed consolidated statements of income, and resulted in net losses of $0.1 million and less than $0.1 million in the three and six months ended December 31, 2016, and net losses of $0.3 million and $2.1 million in the three and six months ended December 31, 2015, respectively.

We enter into foreign currency contracts to manage exposure related to certain foreign currency obligations. The foreign currency contracts are not designated as hedging instruments and, accordingly, are not subject to hedge accounting. In fiscal year 2015, we entered into foreign currency forward contracts to purchase Japanese yen, using U.S. dollars. As of December 31, 2016, we had no outstanding foreign currency forward contracts. In the six months ended December 31, 2016, and 2015 we recognized net gains of zero and $1.2 million, respectively, on the foreign currency forward contracts, which are recorded in selling, general, and administrative expenses in the condensed consolidated statements of income.

Recently Issued Accounting Pronouncements Not Yet Effective

In October 2016, the Financial Accounting Standards Board, or FASB, issued an accounting standard update, or ASU, on Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory, which reduces the complexity in the accounting standards by allowing the recognition of current and deferred income taxes for an intra-entity asset transfer, other than inventory, when the transfer occurs. Historically, recognition of the income tax consequence was not recognized until the asset was sold to an outside party. This amendment should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. There are no new disclosure requirements. This ASU is effective for us beginning in the first quarter of fiscal 2019, and early adoption is permitted. We are evaluating the impact of this ASU on our condensed consolidated financial statements.

In August 2016, the FASB issued an ASU on Statement of Cash Flows-Classification of Certain Cash Receipts and Cash Payments. This ASU will be effective for us beginning in the first quarter of fiscal 2019 on a retrospective basis, and early adoption is permitted. We are evaluating the impact of this ASU on our condensed consolidated statements of cash flows.

In May 2014, the FASB issued an ASU on Revenue from Contracts with Customers. The ASU will supersede most of the existing revenue recognition guidance in U.S. GAAP when the new standard becomes effective, and requires entities to recognize revenue when they transfer promised goods or services to customers in an amount that reflects the consideration which the entity expects to be entitled to in exchange for those goods or services. The ASU is effective for us in our fiscal year 2019, with early adoption permitted in the first quarter of fiscal 2018. We are currently in the process of evaluating the impact of the adoption of the ASU on our condensed consolidated financial statements and considering additional disclosure requirements. The new standard permits the use of either the retrospective or cumulative effect transition method. We have not yet selected a transition method or determined the effect of the standard on our ongoing financial reporting.

In March 2016, the FASB issued an ASU for Compensation-Stock Compensation. This update simplifies several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The ASU will be effective for us beginning in the first quarter of fiscal 2018, with early adoption permitted. We are evaluating the effects of adoption of this ASU on our condensed consolidated financial statements.

In February 2016, the FASB issued an ASU on Leases. This update requires organizations that lease assets with lease terms of more than 12 months to recognize assets and liabilities for the rights and obligations created by those leases on their balance sheets. It also requires new qualitative and quantitative disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The new standard will be effective for us beginning in the first quarter of our fiscal year 2020, with early adoption permitted. We are evaluating the effects of adoption of this ASU on our condensed consolidated financial statements.

In January 2016, the FASB issued an ASU on Recognition and Measurement of Financial Assets and Financial Liabilities, which provides guidance for the recognition, measurement, presentation, and disclosure of financial assets and liabilities. This ASU will be effective for us beginning in our first quarter of fiscal 2019, with early adoption permitted. We are evaluating the effects of the adoption of this ASU on our condensed consolidated financial statements.

In July 2015, the FASB issued an ASU that requires an entity to measure inventory at the lower of cost and net realizable value when the first-in, first-out, or average cost method is used. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The ASU will become effective for us in our first quarter of fiscal 2018, with early adoption permitted. We are evaluating the effects of the adoption of this ASU on our condensed consolidated financial statements.

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. We accrue for estimated sales returns, incentives, and other allowances at the time we recognize revenue. Our products contain embedded firmware and software, which together with, or consisting of, our ASIC chip, deliver the essential functionality of our products and, as such, software revenue recognition guidance is not applicable. Our sales to distributors are made under agreements that generally do not provide for price adjustments after purchase and revenue recognition and provide for only limited return rights under product warranty. Revenue on these sales is recognized in the same manner as sales to our non-distributor customers. When sales rebates and price allowances are applicable they are estimated and recorded in the period the related revenue is recognized.

3. Net Income Per Share

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Numerator:				
Net income	$22.8	$35.0	$26.5	$58.8
Denominator:				
Shares, basic	35.1	36.4	35.0	36.6
Effect of dilutive share-based awards	0.8	1.3	0.7	1.4
Shares, diluted	35.9	37.7	35.7	38.0
Net income per share:				
Basic	$0.65	$0.96	$0.76	$1.61
Diluted	$0.64	$0.93	$0.74	$1.55

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 over the period measured. Our diluted net income per share amounts for each period presented include the weighted average effect of potentially dilutive shares. We use the "treasury stock" method to determine the dilutive effect of our stock options, deferred stock units, or DSUs, and market stock units, or MSUs.

Dilutive net income per share amounts do not include the potential weighted average effect of 1,900,374 and 969,730 shares of common stock related to certain share-based awards that were outstanding during the three months ended December 31, 2016 and 2015, respectively, and 1,586,410 and 717,991 shares of common stock related to certain share-based awards that were outstanding during the six months ended December 31, 2016 and 2015, 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

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

	December 31, 2016			June 30, 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3

Assets:						
Money market funds	$330.2	$ -	$ -	$319.1	$ -	$ -
Auction rate securities	-	-	1.5	-	-	8.6
Total available-for-sale securities	$330.2	$ -	$ 1.5	$319.1	$ -	$ 8.6

In our condensed consolidated balance sheets, as of December 31, 2016 and June 30, 2016, money market balances were included in cash and cash equivalents, and auction rate securities, or ARS investments, were included in non-current other assets.

The changes in fair value of our Level 3 financial assets as of December 31, 2016 were as follows:

Balance as of June 30, 2016	$8.6
Net unrealized loss	(1.5)
Impairment recovery on redeemed investments	1.9
Redemptions	(7.5)
Balance as of December 31, 2016	$1.5

There were no transfers in or out of our Level 1, 2, or 3 assets during the three and six months ended December 31, 2016 and 2015.

9

The fair values of our accounts receivable and accounts payable approximate their carrying values because of the short-term nature of those instruments. Intangible assets, property and equipment, and goodwill are measured at fair value on a non-recurring basis if impairment is indicated. The interest rate on our bank debt is variable, which is subject to change from time to time to reflect a market interest rate; accordingly, the carrying value of our bank debt approximates fair value.

5. Auction Rate Securities

Our ARS investments, which are included in non-current other assets in the condensed consolidated balance sheets, have failed to settle in auctions beginning in 2007. 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.

As there are currently no active markets for our various failed ARS investments, we have estimated the fair value of these investments as of December 31, 2016 using a trinomial discounted cash flow analysis. The analysis considered, among others, the following factors:

- 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, a successful 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 fluctuate from period to period depending on future market conditions.

We have ARS investments with a fair value of $1.5 million fair value with no maturity date. All of our ARS investments are below investment grade.

The ARS investments we held as of December 31, 2016, including the original cost basis, other-than-temporary impairment included in retained earnings, new cost basis, unrealized gain, and fair value, consisted of the following (in millions):

Original Cost Basis	Other-than-temporary Impairment	New Cost Basis	Unrealized Gain	Fair Value

		in Retained Earnings			
Preferred stock	$ 5.0	$ (5.0)	$ -	$ 1.5	$ 1.5

10

The ARS investments we held as of June 30, 2016, including the original cost basis, other-than-temporary impairment included in retained earnings, new cost basis, unrealized gain, and fair value, consisted of the following (in millions):

	Original Cost Basis	Other-than-temporary Impairment in Retained Earnings	New Cost Basis	Unrealized Gain	Fair Value
Credit linked notes	$ 7.5	$ (2.2)(1)	$ 5.3	$ 1.8	$ 7.1
Preferred stock	5.0	(5.0)	-	1.5	1.5
Total ARS	$ 12.5	$ (7.2)	$ 5.3	$ 3.3	$ 8.6

(1) Other-than-temporary impairment in retained earnings is partially offset by cumulative accretion of $4.4 million on non-current investments. Accretion is reclassified from accumulated other comprehensive income and recorded in the condensed consolidated statements of income as non-cash interest income.

We have accounted for our ARS investments as non-current 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 and cash equivalents, our expected operating cash flows, and our other sources of cash, we do not intend to sell the ARS investments and it is not more likely than not that we will be required to sell our ARS investments before the recovery of the amortized cost basis.

6. Inventories

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

	December 31, 2016	June 30, 2016
Raw materials	$ 79.6	$ 59.2
Finished goods	80.1	87.2
	$ 159.7	$ 146.4

We record a write-down, if necessary, to reduce the carrying value of inventory to its net realizable value. The effect of these write-downs is to establish a new cost basis in the related inventory, which we do not subsequently write up. We also record a liability and charge to cost of revenue for estimated losses on inventory we are obligated to purchase from our contract manufacturers when such losses become probable from customer delays, order cancellations, or other factors.

7. Acquired Intangibles

The following table summarizes the life, the gross carrying value and the related accumulated amortization of our acquired intangible assets as of December 31, 2016 and June 30, 2016 (in millions):

	Weighted Average Life in Years	December 31, 2016	June 30, 2016
Display driver technology	5.3	$ 164.0	$ 164.0
Fingerprint authentication technology	4.3	63.5	75.6
Customer relationships	2.8	48.4	48.4
Licensed technology and other	5.0	1.3	1.3
Patents	7.7	4.7	4.8
Supplier arrangement		-	22.0
Acquired intangibles, gross	4.5	281.9	316.1
Accumulated amortization		(152.8)	(155.8)
Acquired intangibles, net		$ 129.1	$ 160.3

The total amortization expense for the acquired intangible assets was $14.5 million and $18.8 million for the three months ended December 31, 2016 and 2015, respectively, and $31.2 million and $37.9 million for the six months ended December 31, 2016 and 2015, respectively. Amortization expense was included in our condensed consolidated statements of income in cost of revenue and acquired intangibles amortization.

The following table presents expected annual fiscal year aggregate amortization expense as of December 31, 2016 (in millions):

Remainder of 2017	$28.1
2018	48.6
2019	34.2
2020	10.6
2021	3.5
2022	3.5
Thereafter	0.6
Future amortization	$129.1

8. Other Accrued Liabilities

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

	December 31, 2016	June 30, 2016
Customer obligations	$ 39.0	$34.8
Inventory obligations	35.9	24.0
Warranty	3.7	3.5
Other	14.7	20.0
	$ 93.3	$82.3

9. Indemnifications, Contingencies and Legal Proceedings

Indemnifications

In connection with certain agreements, we are obligated to indemnify the counterparty against third party claims alleging infringement of certain intellectual property rights by us. We have also entered into indemnification agreements with our officers and directors. Maximum potential future payments 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 condensed consolidated financial statements for such indemnification obligations.

Contingencies

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

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

Legal Proceedings

In October 2015, Amkor Technology, or Amkor, filed a complaint against us alleging infringement of intellectual property rights and various other claims. In November 2015, we filed an indemnification claim against the former stockholders and option holders of Validity Sensors, Inc., or Validity, to secure our rights under the Agreement and Plan of Reorganization between us and Validity. Pursuant to the Agreement, we can offset costs, damages and settlements against the contingent consideration earnout balance for certain of the claims brought by Amkor. Accordingly, we have withheld and reserved the remaining contingent consideration earnout balance of $8.7 million and have classified the reserve balance as a current acquisition-related liability in our condensed consolidated balance sheet.

In September 2015, IIX Inc., or IIX, filed a complaint against us demanding payment of certain fees and costs plus interest allegedly due to IIX under a memorandum of understanding, or MOU, entered into between IIX and Renesas SP Drivers, Inc., or RSP, as well as litigation costs. In September 2015, we tendered a claim for indemnification from Renesas Electronics Corporation, or Renesas, on the basis that the IIX claim arises from a breach of Renesas' obligations under the Stock Purchase Agreement that we executed with Renesas, among others, in June 2014. Accordingly, we have retained ¥648 million (approximately $5.5 million) of the Indemnification Holdback (see definition included under Contractual Obligations and Commercial Commitments in Management's Discussion and Analysis contained elsewhere in this Report) liability and have classified the reserve balance as a non-current acquisition-related liability, as final settlement of the IIX complaint is not expected to occur within the next twelve months.

10. Debt

We have a credit agreement, or the Credit Agreement, in place with the lenders party thereto, or the Lenders, and Wells Fargo Bank, National Association, or the Administrative Agent, as administrative agent for the Lenders.

The Credit Agreement provides for, among other things, (i) a revolving credit facility of up to $250 million, which includes a $20 million sublimit for letters of credit and a $20 million sublimit for swingline loans, and (ii) a term loan facility in an amount of $150 million. Under the terms of the Credit Agreement, we may, subject to the satisfaction of certain conditions, request increases in the revolving credit facility commitments and additional term loan commitments in an aggregate principal amount of up to $100 million to the extent existing or new lenders agree to provide such increased or additional commitments, as applicable. We borrowed $150 million under the term loan facility and $100 million under the revolving credit facility to finance a portion of the RSP acquisition purchase price. Debt issuance costs were approximately $5.0 million, which are being amortized over 60 months.

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

On October 20, 2015, we entered into a Commitment Increase Agreement and First Amendment to Credit Agreement, or the First Amendment, with the Administrative Agent and each of the Lenders, which amended the Credit Agreement.

Pursuant to the First Amendment, we exercised our right under the Credit Agreement to request a $100 million increase to the aggregate revolving credit commitment thereunder, for total aggregate revolving credit commitments of $250 million.

The First Amendment also amended the Credit Agreement by (i) reducing commitment fee rates set forth in the definition of Applicable Margin; (ii) providing that we may, from time to time, request incremental increases from the

Lenders in the aggregate revolving and term commitments by an amount not exceeding $100 million, such increases to be in addition to the increase provided by the First Amendment; and (iii) making certain other administrative changes, all as set forth in the First Amendment.

The revolving credit facility and term loans under the Credit Agreement bear interest at our election of a Base Rate plus an applicable margin or LIBOR plus an applicable margin. Swingline loans bear interest at a Base Rate plus an applicable margin. The Base Rate is a floating rate that is the greater of the Prime Rate, the Federal Funds Rate plus 50 basis points, or LIBOR plus 100 basis points. The applicable margin is based on a sliding scale which ranges from zero to 100 basis points for Base Rate loans and 100 basis points to 200 basis points for LIBOR loans. During the three months ended December 31, 2016, the interest rates on our borrowings ranged from approximately 1.85% to 2.42%.

The term loan facility requires repayment over five years with nineteen quarterly principal payments which began in the three months ended March 31, 2015. Each of the first four quarterly principal payments were $1.9 million, each of the following quarterly principal payments are $3.8 million, and the final principal payment of $90.0 million will be due on September 30, 2019. The revolving credit facility requires payment in full at the end of five years on September 30, 2019. We are also required to pay a commitment fee for any unused portion of the revolving credit facility, which ranges from 0.25% to 0.45% per annum. Interest on the term loan facility and revolving credit facility is payable quarterly. As of December 31, 2016, the outstanding balance of the debt owed under the Credit Agreement was $227.5 million.

Borrowings under the Credit Agreement will continue to bear interest at a variable interest rate based on LIBOR or a Base Rate, in each case plus the Applicable Margin. The Applicable Margin is based on our consolidated total leverage ratio pursuant to a pricing grid set forth in the Credit Agreement.

Under the Credit Agreement, there are restrictive operating covenants, including three financial covenants which limit the consolidated total leverage ratio, or leverage ratio, the consolidated interest coverage ratio, or interest coverage ratio, and places a restriction on the amount of capital expenditures that may be made in any fiscal year. The leverage ratio is the ratio of debt as of the measurement date to earnings before interest, taxes, depreciation and amortization, or EBITDA, for the four consecutive quarters ending with the quarter of measurement. The leverage ratio must not exceed 2.50 to 1.0 during the first two years of the agreement, and 2.0 to 1.0 during the last three years of the agreement. The interest coverage ratio is EBITDA to interest expense for the four consecutive quarters ending with the quarter of measurement. The interest coverage ratio must not be less than 3.50 to 1.0 during the term of the Credit Agreement. As of December 31, 2016, we were in compliance with the restrictive operating covenants.

11. Share-Based Compensation

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Cost of revenue	$0.6	$0.4	$1.1	$0.8
Research and development	8.5	7.5	16.3	14.0
Selling, general, and administrative	6.5	6.1	12.8	11.1
Total	$15.6	$14.0	$30.2	$25.9
Income tax benefit on share-based compensation	$4.3	$3.9	$8.0	$6.8

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

Stock Options

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

	Stock Option	Weighted Average	Aggregate Intrinsic

	Awards Outstanding	Exercise Price	Value (in millions)
Balance as of June 30, 2016	2,711,542	$ 46.69	
Granted	197,401	52.69	
Exercised	(200,643)	29.56	
Forfeited	(84,068)	71.08	
Balance as of December 31, 2016	2,624,232	47.67	$ 38.2
Exercisable at December 31, 2016	1,991,286	40.42	$ 37.9

The aggregate intrinsic value was determined using the closing price of our common stock on December 23, 2016 of $54.09 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 was as follows:

	DSU Awards Outstanding	Aggregate Intrinsic Value (in millions)
Balance as of June 30, 2016	1,005,981	
Granted	809,721	
Delivered	(319,780)	
Forfeited	(93,393)	
Balance as of December 31, 2016	1,402,529	$ 75.9

The aggregate intrinsic value was determined using the closing price of our common stock on December 23, 2016 of $54.09.

Of the shares delivered, 81,704 shares valued at $4.4 million were withheld to meet statutory minimum tax withholding requirements.

Market Stock Units

Our Amended and Restated 2010 Incentive Compensation Plan provides for the grant of MSU awards to our employees, consultants, and directors. An MSU is a promise to deliver shares of our common stock at a future date based on the achievement of market-based performance requirements in accordance with the terms of the MSU grant agreement.

We have granted MSUs to our executive officers, which are designed to vest in three tranches with the target quantity for each tranche equal to one-third of the total MSU grant. The first tranche vests based on a one-year performance period; the second tranche vests based on a two-year performance period; and the third tranche vests based on a three-year performance period. Performance is measured based on the achievement of a specified level of total stockholder return, or TSR, relative to the TSR of the Philadelphia Semiconductor Index, or SOX Index. The potential payout ranges from 0% to 200% of the grant target quantity and is adjusted on a two-to-one ratio based on our TSR performance relative to the SOX Index TSR performance using the following formula:

(100% + ([Synaptics TSR—SOX Index TSR] x 2))

Beginning with the MSU grants in fiscal 2015, the payout for the first tranche and the second tranche will not exceed 100% and the payout for the third tranche will be calculated based on the total target quantity for the entire grant multiplied by the payout factor, which will then be reduced by shares issued for the first tranche and the second tranche.

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

During the six months ended December 31, 2016, MSU activity, including MSUs granted, delivered, and forfeited, and the balance and aggregate intrinsic value of MSUs as of December 31, 2016 was as follows:

	MSU Awards Outstanding	Aggregate Intrinsic Value (in millions)
Balance as of June 30, 2016	146,150	
Granted	105,800	
Performance adjustment	(55,739)	
Delivered	(10,339)	
Forfeited	(14,043)	
Balance as of December 31, 2016	171,829	$ 9.3

We value the MSUs using the Monte Carlo simulation model on the date of grant and amortize the compensation expense over the three-year performance and service period on a straight-line basis. The unrecognized share-based compensation cost of our outstanding MSUs was approximately $13.8 million as of December 31, 2016, which will be recognized over a weighted average period of approximately 1.5 years.

Employee Stock Purchase Plan

Shares purchased, weighted average purchase price, cash received, and the aggregate intrinsic value for employee stock purchase plan purchases during the six-month period ended December 31, 2016 were as follows (in millions, except for shares purchased and weighted average price):

Shares purchased	153,185
Weighted average purchase price	$46.89
Cash received	$7.2
Aggregate intrinsic value	$1.3

12. 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. Therefore, 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 recorded in interim periods is recorded by applying the estimated annual effective tax rate to year-to-date income before provision for income taxes, excluding the effects of significant unusual or infrequently occurring discrete items. The tax effects of discrete items are recorded in the same period that the related discrete items are reported and results in a difference between the actual effective tax rate and the estimated annual effective tax rate.

The provision for income taxes of $6.6 million and $9.5 million for the three months ended December 31, 2016 and 2015, respectively, represented estimated federal, foreign, and state income taxes. The effective tax rate for the three months ended December 31, 2016 diverged from the combined U.S. federal and state statutory tax rate primarily because of foreign income taxed at lower tax rates and research credits, partially offset by foreign withholding taxes, nondeductible amortization, and the impact of accounting for qualified stock options. The effective tax rate for the three months ended December 31, 2015, diverged from the combined U.S. federal and state statutory tax rate, primarily because of foreign income taxed at lower tax rates and research credits, which included the retroactive reinstatement of the federal research credit, partially offset by foreign withholding taxes, nondeductible amortization, and net unrecognized tax benefits associated with qualified stock options.

The provision for income taxes of $7.6 million and $18.7 million for the six months ended December 31, 2016 and 2015, respectively, represented estimated federal, foreign, and state income taxes. The effective tax rate for the six months ended December 31, 2016 diverged from the combined U.S. federal and state statutory tax rate primarily because of foreign income taxed at lower tax rates and research credits, partially offset by foreign withholding taxes, nondeductible amortization, and the impact of accounting for qualified stock options. The effective tax rate for the six months ended December 31, 2015, diverged from the combined U.S. federal and state statutory tax rate, primarily because of foreign income taxed at lower tax rates and research credits, which included the retroactive reinstatement of the federal research credit, partially offset by foreign withholding taxes, nondeductible amortization, and net unrecognized tax benefits associated with qualified stock options.

The total liability for gross unrecognized tax benefits related to uncertain tax positions increased $0.7 million during the six months ended December 31, 2016 to $14.1 million from $13.4 million at June 30, 2016, and was included in other long-term liabilities on our condensed consolidated balance sheets. If recognized, the total gross unrecognized tax benefits would reduce the effective tax rate on income from continuing operations. Accrued interest and penalties related to unrecognized tax benefits as of December 31, 2016 was $1.1 million; this balance decreased $0.3 million from June 30, 2016. We classify interest and penalties as components of income tax expense. It is reasonably possible that the amount of the liability for unrecognized tax benefits may change within the next twelve months and an estimate of the range of possible changes may include an increase in our liability of up to $1.0 million.

In July 2015, the U.S. Tax Court issued an opinion in Altera Corp. v. Commissioner related to a treasury regulation addressing the treatment of stock-based compensation in a cost-sharing arrangement with a related party. The U.S. Department of the Treasury has not withdrawn the requirement in its regulations related to the treatment of stock-based compensation. The Commissioner filed an

16

appeal to the Ninth Circuit Court of Appeals in February 2016. While we determined no adjustment to our financial statements is required due to the uncertainties with respect to the ultimate resolution, we will continue to monitor developments in this case.

Our major tax jurisdictions are the United States, Hong Kong SAR, and Japan. From fiscal 2009 onward, we remain subject to examination by one or more of these jurisdictions.

13. Segment, Customers, and Geographic Information

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

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
China	$229.0	$128.0	$407.2	$233.8
Japan	123.7	242.9	197.7	472.0
United States	57.0	47.0	121.3	113.0
South Korea	28.2	37.2	79.3	88.2
Taiwan	18.6	15.2	33.4	33.1
Other	4.8	0.2	8.6	0.4
	$461.3	$470.5	$847.5	$940.5

Net revenue from our customers for each group of similar products was as follows (in millions):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Mobile product applications	$397.5	$407.8	$728.8	$819.9
PC product applications	63.8	62.7	118.7	120.6
	$461.3	$470.5	$847.5	$940.5

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Customer A	21%	22%	22%	21%
Customer B	18%	16%	20%	19%
Customer C	11%	16%	*	17%
Customer D	10%	12%	11%	11%
Customer E	10%	*	*	*

*Less than 10%

17

We extend credit based on evaluation of a customer's financial condition, and we generally do not require collateral. Major customer accounts receivable as a percentage of total accounts receivable were as follows:

	December 31, 2016	June 30, 2016
Customer A	18%	12%
Customer B	14%	10%
Customer C	12%	14%
Customer D	*	13%
Customer E	*	11%

*Less than 10%

14. 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 other comprehensive income. We recognize foreign currency remeasurement adjustments and foreign currency transaction gains and losses in our condensed consolidated statements of income as the U.S. dollar is the functional currency of our foreign entities.

15. Restructuring Activities Announced June 2016

In June 2016, our management approved, committed to and initiated plans to restructure and further improve efficiencies in our operational activities to align the Company's cost structure consistent with its revenue levels. Restructuring costs related to the June 2016 restructuring activities were recorded to the restructuring costs line item within our condensed consolidated statements of income. These costs primarily related to severance costs for a reduction in headcount and facility consolidation and related costs. The total estimated charges are $11.6 million for severance costs and $2.3 million for lease cancellation and related charges. The remaining restructuring charges for employee severance and benefits costs are expected to be recognized before the end of fiscal 2017 and the facility consolidation and related charges actions are complete. The restructuring liability activities during the six months ended December 31, 2016 were as follows (in millions):

	Employee Severance	Facility Consolidation	Total

	and Benefits	and Related Charges	
Balance as of June 30, 2016	$ 6.7	$ -	$ 6.7