Item 6. Selected Financial Data

Please read this selected consolidated financial data in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," our Consolidated Financial Statements and the notes to those statements included in this Form 10-K.

	Fiscal Year 2011	2010	2009	2008	2007
	(in thousands, except per share data)				
Consolidated Statements of Income Data					
Revenues	$ 491,625	$ 493,341	$ 441,020	$ 415,630	$ 337,461
Operating income	50,074	86,671	66,511	43,656(3)	23,097
Income from continuing operations	35,472	73,242	73,092(2)	32,935(3)	39,687
Income from discontinued operations, net of income taxes	—	—	—	—	165,149(4)
Net income	$ 35,472	$ 73,242	$ 73,092(2)	$ 32,935(3)	$ 204,836(4)
Income from continuing operations per share:					
Basic	$ 0.82	$ 1.63	$ 1.62	$ 0.68	$ 0.72
Diluted	$ 0.79	$ 1.57	$ 1.57	$ 0.67	$ 0.70
Consolidated Balance Sheet Data					
Cash, cash equivalents and investments (1)	$ 324,967	$ 383,362	$ 434,899	$ 325,360	$ 572,974(5)
Working capital	370,211	414,073	435,359	289,716	599,300
Total assets	705,991	727,658	742,838	624,245	840,246
Long-term obligations	24,214	22,372	24,403	48,789	43,309
Total stockholders' equity	598,939	625,430	629,796	502,460	703,545

(1) Reflects repurchases of $110 million, $140 million, $20 million, $280 million and $163 million of our common stock in fiscal 2011, 2010, 2009, 2008 and 2007, respectively.

(2) Includes a benefit related to the resolution of prior year uncertain tax benefits.

(3) Includes a charge for in-process research and development costs in connection with our acquisition of Integration Associates.

(4) Includes a gain on the sale of our Aero® product lines, net of related income taxes.

(5) Includes proceeds from the sale of our Aero product lines.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and related notes thereto included elsewhere in this report. This discussion contains forward-looking statements. Please see the "Cautionary Statement" and "Risk Factors" above for discussions of the uncertainties, risks and assumptions associated with these statements. Our fiscal year-end financial reporting periods are a 52- or 53- week year ending on the Saturday closest to December 31st. Fiscal 2011, 2010 and 2009 were 52-week years and ended on December 31, 2011, January 1, 2011 and January 2, 2010, respectively.

Overview

We design and develop proprietary, analog-intensive, mixed-signal ICs for a broad range of applications. Mixed-signal ICs are electronic components that convert real-world analog signals, such as sound and radio waves, into digital signals that electronic products can process. Therefore, mixed-signal ICs are critical components in a broad range of applications in a variety of markets, including communications, consumer, industrial, automotive, medical and power management. Our major customers include Cisco, Huawei, LG Electronics, Pace, Panasonic, Sagem, Samsung, Technicolor, Varian Medical Systems and ZTE.

As a fabless semiconductor company, we rely on third-party semiconductor fabricators in Asia, and to a lesser extent the United States and Europe, to manufacture the silicon wafers that reflect our IC designs. Each wafer contains numerous die, which are cut from the wafer to create a chip for an IC. We rely on third parties in Asia to assemble, package, and, in most cases, test these devices and ship these units to our customers. Testing performed by such third parties facilitates faster delivery of products to our customers (particularly those located in Asia), shorter production cycle times, lower inventory requirements, lower costs and increased flexibility of test capacity.

Our expertise in analog-intensive, high-performance, mixed-signal ICs enables us to develop highly differentiated solutions that address multiple markets. We group our products into the following categories:

- Broad-based products, which include our microcontrollers, timing products (clocks and oscillators), wireless receivers, isolation devices and human interface sensors and controllers;

- Broadcast products, which include our broadcast audio and video products;

- Access products, which include our VoIP products, embedded modems and our Power over Ethernet devices; and

- Mature products, which include certain devices that are at the end of their respective life cycles and therefore receive minimal or no continued research and development investment, including our DSL analog front end ICs and IRDA devices.

Through acquisitions and internal development efforts, we have continued to diversify our product portfolio and introduce next generation ICs with added functionality and further integration. In January 2011, we acquired Spectra Linear, Inc. Spectra Linear's family of low-power, highly programmable and small-footprint silicon clocking solutions is optimized for consumer electronics and embedded applications. The acquired products complement our existing timing product line by adding a broad family of ICs that we believe will accelerate penetration in high-volume applications.

In fiscal 2011, we introduced energy-efficient microcontroller and wireless microcontroller solutions for power-sensitive embedded applications, high-performance receivers ideal for multi-tuner car radio systems with HD Radio technology, single-chip hybrid TV receivers designed to simplify TV and set-top box designs, a multi-band radio receiver that streamlines the design of wheel-tuned radio products with digital displays, a silicon TV tuner solution for TV makers in China and Taiwan, next generation ISOmodem embedded modems with advanced voice features for a wide range of data modem applications, six-channel digital isolators with isolation ratings up to 5 kV, a highly integrated, cost-effective and power-efficient subscriber line interface circuit (SLIC) solution for VoIP gateways, an energy-efficient wireless sensor node solution powered by a solar energy harvesting source, high-performance clock ICs for high-speed optical transport network (OTN) applications, two microcontroller families that simplify the addition of USB connectivity to embedded designs, next-generation infrared and ambient light sensors for human interface applications and a family of crystal oscillators and voltage-controlled crystal oscillators designed to minimize jitter, system cost and design complexity for a wide range of high-performance, cost-sensitive applications. We plan to continue to introduce products that increase the content we provide for existing applications, thereby enabling us to serve markets we do not currently address and expanding our total available market opportunity.

During fiscal 2011 and 2009, we had one customer, Samsung, whose purchases across a variety of product areas represented 13% and 16% of our revenues, respectively. We had no customers that accounted for more than 10% of our revenues during fiscal 2010. In addition to direct sales to customers, some of our end customers purchase products indirectly from us through distributors and contract manufacturers. An end customer purchasing through a contract manufacturer typically instructs such contract manufacturer to obtain our products and incorporate such products with other components for sale by such contract manufacturer to the end customer. Although we actually sell the products to, and are paid by, the distributors and contract manufacturers, we refer to such end customer as our customer. Three of our distributors, Edom Technology, Avnet and Macnica, represented 24%, 12% and 10% of our revenues during fiscal 2011, respectively. Edom and Avnet represented 28% and 14% of our revenues during fiscal 2010, and 27% and 10% of our revenues during fiscal 2009, respectively. There were no other distributors or contract manufacturers that accounted for more than 10% of our revenues in fiscal 2011, 2010 or 2009.

The percentage of our revenues derived from outside of the United States was 86% in fiscal 2011, 86% in fiscal 2010 and 88% in fiscal 2009. All of our revenues to date have been denominated in U.S. dollars. We believe that a majority of our revenues will continue to be derived from customers outside of the United States.

The sales cycle for our ICs can be as long as 12 months or more. An additional three to six months or more are usually required before a customer ships a significant volume of devices that incorporate our ICs. Due to this lengthy sales cycle, we typically experience a significant delay between incurring research and development and selling, general and administrative expenses, and the corresponding sales. Consequently, if sales in any quarter do not occur when expected, expenses and inventory levels could be disproportionately high, and our operating results for that quarter and, potentially, future quarters would be adversely affected. Moreover, the amount of time between initial research and development and commercialization of a product, if ever, can be substantially longer than the sales cycle for the product. Accordingly, if we incur substantial research and development costs without developing a commercially successful product, our operating results, as well as our growth prospects, could be adversely affected.

Because many of our ICs are designed for use in consumer products such as televisions, set-top boxes, portable navigation devices and mobile handsets, we expect that the demand for our products will be typically subject to some degree of seasonal demand. However, rapid changes in our markets and across our product areas make it difficult for us to accurately estimate the impact of seasonal factors on our business.

Results of Operations

The following describes the line items set forth in our Consolidated Statements of Income:

Revenues. Revenues are generated almost exclusively by sales of our ICs. We recognize revenue on sales when all of the following criteria are met: 1) there is persuasive evidence that an arrangement exists, 2) delivery of goods has occurred, 3) the sales price is fixed or determinable, and 4) collectibility is reasonably assured. Generally, we recognize revenue from product sales to direct customers and contract manufacturers upon shipment. Certain of our sales are made to distributors under agreements allowing certain rights of return and price protection on products unsold by distributors. Accordingly, we defer the revenue and cost of revenue on such sales until the distributors sell the product to the end customer. Our products typically carry a one-year replacement warranty. Replacements have been insignificant to date. Our revenues are subject to variation from period to period due to the volume of shipments made within a period, the mix of products we sell and the prices we charge for our products. The vast majority of our revenues were negotiated at prices that reflect a discount from the list prices for our products. These discounts are made for a variety of reasons, including: 1) to establish a relationship with a new customer, 2) as an incentive for customers to purchase products in larger volumes, 3) to provide profit margin to our distributors who resell our products or 4) in response to competition. In addition, as a product matures, we expect that the average selling price for such product will decline due to the greater availability of competing products. Our ability to increase revenues in the future is dependent on increased demand for our established products and our ability to ship larger volumes of those products in response to such demand, as well as our ability to develop or acquire new products and subsequently achieve customer acceptance of newly introduced products.

Cost of Revenues. Cost of revenues includes the cost of purchasing finished silicon wafers processed by independent foundries; costs associated with assembly, test and shipping of those products; costs of personnel and equipment associated with manufacturing support, logistics and quality assurance; costs of software royalties, other intellectual property license costs and certain acquired intangible assets; and an allocated portion of our occupancy costs.

Research and Development. Research and development expense consists primarily of personnel-related expenses, including stock-based compensation, new product mask, external consulting and services costs, equipment tooling, equipment depreciation, amortization of intangible assets, as well as an allocated portion of our occupancy costs for such operations. Research and development activities include the design of new products, refinement of existing products and design of test methodologies to ensure compliance with required specifications.

Selling, General and Administrative. Selling, general and administrative expense consists primarily of personnel-related expenses, including stock-based compensation, related allocable portion of our occupancy costs, sales commissions to independent sales representatives, applications engineering support, professional fees, legal fees and promotional and marketing expenses.

Interest Income. Interest income reflects interest earned on our cash, cash equivalents and investment balances.

Interest Expense. Interest expense consists of interest on our short and long-term obligations.

Other Income (Expense), Net. Other income (expense), net consists primarily of foreign currency remeasurement adjustments as well as other non-operating income and expenses.

Provision (Benefit) for Income Taxes. Provision (benefit) for income taxes includes both domestic and foreign income taxes at the applicable statutory rates adjusted for non-deductible expenses, research and development tax credits and other permanent differences.

The following table sets forth our Consolidated Statements of Income data as a percentage of revenues for the periods indicated:

	Fiscal Year		
	2011	2010	2009
Revenues	100.0%	100.0%	100.0%
Cost of revenues	39.3	34.3	36.6
Gross margin	60.7	65.7	63.4
Operating expenses:			
Research and development	27.7	25.1	23.7
Selling, general and administrative	22.8	23.0	24.7
Operating expenses	50.5	48.1	48.4
Operating income	10.2	17.6	15.0
Other income (expense):			
Interest income	0.3	0.4	0.7
Interest expense	0.0	0.0	0.0
Other income (expense), net	0.1	(0.3)	0.0
Income before income taxes	10.6	17.7	15.7
Provision (benefit) for income taxes	3.4	2.9	(0.9)
Net income	7.2%	14.8%	16.6%

Comparison of Fiscal 2011 to Fiscal 2010

Revenues

	Fiscal Year			%
(in millions)	2011	2010	Change	Change
Revenues	$ 491.6	$ 493.3	$ (1.7)	(0.3)%

Unit volumes of our products decreased compared to fiscal 2010 by 1.0%. Average selling prices increased during the same period by 1.2%. The average selling prices of our products may fluctuate significantly from period to period. In general, as our products become more mature, we expect to experience decreases in average selling prices. We anticipate that newly announced, higher priced, next generation products and product derivatives will offset some of these decreases.

Gross Margin

	Fiscal Year			%
(in millions)	2011	2010	Change	Change
Gross margin	$ 298.4	$ 324.2	$ (25.8)	(8.0)%
Percent of revenue	60.7%	65.7%		

The decrease in gross margin in fiscal 2011 was primarily due to changes in product mix and charges related to the acquisition of Spectra Linear.

We may experience declines in the average selling prices of certain of our products. This creates downward pressure on gross margin as a percentage of revenues and may be offset to the extent we are able to: 1) introduce higher margin new products and gain market share with our ICs; 2) achieve lower production costs from our wafer suppliers and third-party assembly and test subcontractors; 3) achieve lower production costs per unit as a result of improved yields throughout the manufacturing process; or 4) reduce logistics costs.

Research and Development

(in millions)	Fiscal Year 2011	Fiscal Year 2010	Change	% Change
Research and development	$ 136.0	$ 123.8	$ 12.2	9.8%
Percent of revenue	27.7%	25.1%		

The increase in research and development expense in fiscal 2011 was primarily due to (a) an increase of $8.6 million for personnel-related expenses, including $1.6 million for one-time personnel costs associated with the acquisition of Spectra Linear, (b) an increase of $2.3 million for amortization of intangible assets, and (c) $1.0 million for the impairment of intangible assets. We expect that research and development expense will remain relatively stable in absolute dollars in the first quarter of 2012.

Recent development projects include energy-efficient microcontroller and wireless microcontroller solutions for power-sensitive embedded applications, high-performance receivers ideal for multi-tuner car radio systems with HD Radio technology, single-chip hybrid TV receivers designed to simplify TV and set-top box designs, a multi-band radio receiver that streamlines the design of wheel-tuned radio products with digital displays, a silicon TV tuner solution for TV makers in China and Taiwan, next generation ISOmodem embedded modems with advanced voice features for a wide range of data modem applications, six-channel digital isolators with isolation ratings up to 5 kV, a highly integrated, cost-effective and power-efficient SLIC solution for VoIP gateways, an energy-efficient wireless sensor node solution powered by a solar energy harvesting source, high-performance clock ICs for high-speed OTN applications, two microcontroller families that simplify the addition of USB connectivity to embedded designs, next-generation infrared and ambient light sensors for human interface applications and a family of crystal oscillators and voltage-controlled crystal oscillators designed to minimize jitter, system cost and design complexity for a wide range of high-performance, cost-sensitive applications.

Selling, General and Administrative

(in millions)	Fiscal Year 2011	Fiscal Year 2010	Change	% Change
Selling, general and administrative	$ 112.4	$ 113.8	$ (1.4)	(1.2)%
Percent of revenue	22.8%	23.0%		

The decrease in selling, general and administrative expense in fiscal 2011 was principally due to a) a decrease of $2.0 million for legal fees, and (b) a decline of $1.9 million in the fair value of acquisition-related contingent consideration. The decrease was offset in part by an increase of $2.2 million for personnel-related expenses, including $3.0 million for one-time personnel costs associated with the acquisition of Spectra Linear. We expect that selling, general and administrative expense will increase modestly in absolute dollars in the first quarter of 2012.

Interest Income

(in millions)	Fiscal Year 2011	Fiscal Year 2010	Change
Interest income	$ 1.9	$ 2.3	$ (0.4)

Interest Expense

Interest expense in fiscal 2011 was $37 thousand compared to $77 thousand in fiscal 2010.

Other Income (Expense), Net

Other income (expense), net in fiscal 2011 was $0.4 million compared to $(1.3) million in fiscal 2010. The change was primarily due to foreign currency remeasurement adjustments.

Provision (Benefit) for Income Taxes

(in millions)	Fiscal Year 2011	Fiscal Year 2010	Change
Provision (benefit) for income taxes	$ 16.9	$ 14.4	$ 2.5
Effective tax rate	32.2%	16.4%	

The effective tax rate for fiscal 2011 increased from the prior period, primarily due to the tax charge related to the intercompany license of certain technology obtained in the acquisition of Spectra Linear and other one-time nondeductible costs associated with the acquisition of Spectra Linear, a decrease in the foreign tax rate benefit, and a release of prior year unrecognized tax benefits in fiscal 2010 with none in fiscal 2011. These changes were partially offset by an increase in the research and development tax credit.

The effective tax rates for each of the periods presented differ from the federal statutory rate of 35% due to the amount of income earned in foreign jurisdictions where the tax rate may be lower than the federal statutory rate, research and development tax credits and other permanent items including changes to the liability for unrecognized tax benefits.

Comparison of Fiscal 2010 to Fiscal 2009

Revenues

(in millions)	Fiscal Year 2010	Fiscal Year 2009	Change	% Change
Revenues	$ 493.3	$ 441.0	$ 52.3	11.9%

The growth in revenues in fiscal 2010 was due primarily to improvements in the health of our products' end markets and increases in market share. Unit volumes of our products increased compared to fiscal 2009 by 2.8%. Average selling prices increased during the same period by 9.3%.

Gross Margin

(in millions)	Fiscal Year 2010	Fiscal Year 2009	Change	% Change
Gross margin	$ 324.2	$ 279.8	$ 44.4	15.9%
Percent of revenue	65.7%	63.4%		

The increase in the dollar amount of gross margin in fiscal 2010 was primarily due to our increased sales. The increase in gross margin as a percent of revenue in fiscal 2010 was primarily due to changes in product mix, improvements in our inventory management and manufacturing cost reductions.

Research and Development

(in millions)	Fiscal Year 2010	Fiscal Year 2009	Change	% Change
Research and development	$ 123.8	$ 104.4	$ 19.4	18.6%
Percent of revenue	25.1%	23.7%		

The increase in research and development expense in fiscal 2010 was principally due to an increase of $15.0 million for personnel-related expenses.

In connection with the purchase of Silicon Clocks, we acquired certain in-process research and development (IPR&D) assets. IPR&D represents acquired technology from business combinations that had not achieved technological feasibility as of the acquisition date and had no alternative future use. IPR&D is capitalized until the related projects are completed, then amortized to research and development expense over their useful lives. IPR&D is written-off if the related projects are abandoned. The fair value of each project was determined using the income approach. The discount rate applicable to the cash flows was 19.0%. This rate reflects the weighted-average cost of capital and the risks inherent in the development process. The IPR&D recorded in connection with the acquisition consisted of the following (in thousands):

Project	Fair Value
Resonator	$ 5,200
Clocks	4,270
	$ 9,470

Selling, General and Administrative

(in millions)	Fiscal Year 2010	Fiscal Year 2009	Change	% Change
Selling, general and administrative	$ 113.8	$ 108.8	$ 5.0	4.5%
Percent of revenue	23.0%	24.7%		

The increase in selling, general and administrative expense in fiscal 2010 was principally due to an increase of $2.1 million for legal fees, primarily related to acquisition-related costs and litigation. The decrease in selling, general and administrative expense as a percent of revenues in fiscal 2010 is due to our increased sales.

Interest Income

(in millions)	Fiscal Year 2010	Fiscal Year 2009	Change
Interest income	$ 2.3	$ 2.7	$ (0.4)

The decrease in interest income in fiscal 2010 was largely due to lower interest rates on the underlying instruments, partially offset by a higher average investment balance.

Interest Expense

Interest expense in fiscal 2010 was $0.1 million compared to $0.2 million in fiscal 2009.

Other Income (Expense), Net

Other income (expense), net in fiscal 2010 was $(1.3) million compared to $(0.1) million in fiscal 2009. The change was primarily due to foreign currency remeasurement adjustments.

Provision (Benefit) for Income Taxes

(in millions)	Fiscal Year 2010	Fiscal Year 2009	Change
Provision (benefit) for income taxes	$ 14.4	$ (4.1)	$ 18.5
Effective tax rate	16.4%	(6.0)%	

The effective tax rate for fiscal 2010 increased from the prior period, primarily due to the resolution of uncertain tax positions as a result of entering into an Advance Pricing Agreement with the U.S. Internal Revenue Service during the fourth quarter of fiscal 2009. In addition, the effective tax rate for fiscal 2010 increased from the prior period due to the intercompany license of certain technology obtained in the acquisition of Silicon Clocks during the second quarter of fiscal 2010. The increase in the effective tax rate was partially offset by an increase in the federal research and development credit in fiscal 2010.

The effective tax rates for each of the periods presented differ from the federal statutory rate of 35% due to the amount of income earned in foreign jurisdictions where the tax rate may be lower than the federal statutory rate, research and development tax credits and other permanent items including changes to the liability for unrecognized tax benefits.

Business Outlook

We expect revenues in the first quarter of fiscal 2012 to be in the range of $120 to $125 million. Furthermore, we expect our diluted earnings per share to be in the range of $0.20 to $0.24.

Liquidity and Capital Resources

Our principal sources of liquidity as of December 31, 2011 consisted of $307.5 million in cash, cash equivalents and short-term investments, of which approximately $141.7 million was held by our U.S. entities. The remaining balance was held by our foreign subsidiaries. Our cash equivalents and short-term investments consist of corporate bonds, municipal bonds, money market funds, variable-rate demand notes, U.S. government agency bonds, U.S. Treasury bills, asset-backed securities, U.S. government bonds, certificates of deposit and international government bonds.

Our long-term investments consist of auction-rate securities. Early in fiscal 2008, auctions for many of our auction-rate securities failed because sell orders exceeded buy orders. As of December 31, 2011, we held $19.2 million par value auction-rate securities, all of which have experienced failed auctions. These securities have contractual maturity dates ranging from 2029 to 2046. We are receiving the underlying cash flows on all of our auction-rate securities. The principal amounts associated with failed auctions are not expected to be accessible until a successful auction occurs, the issuer redeems the security, a buyer is found outside of the auction process or the underlying securities mature. We are unable to predict if these funds will become available before their maturity dates. We do not expect to need access to the capital represented by any of our auction-rate securities prior to their maturities.

Net cash provided by operating activities was $88.7 million during fiscal 2011, compared to net cash provided of $117.9 million during fiscal 2010. Operating cash flows during fiscal 2011 reflect our net income of $35.5 million, adjustments of $62.0 million for depreciation, amortization, stock-based compensation and deferred income taxes, and a net cash outflow of $8.8 million due to changes in our operating assets and liabilities.

Accounts receivable increased to $55.4 million at December 31, 2011 from $45.0 million at January 1, 2011. The increase in accounts receivable resulted primarily from an increase in shipments during the last quarter of fiscal 2011 compared to the last quarter of fiscal 2010. Our average days sales outstanding (DSO) was 39 days at December 31, 2011 and 36 days at January 1, 2011.

Inventory decreased to $34.8 million at December 31, 2011 from $39.4 million at January 1, 2011. Our inventory level is primarily impacted by our need to make purchase commitments to support forecasted demand and variations between forecasted and actual demand. Our average days of inventory (DOI) was 63 days at December 31, 2011 and 87 days at January 1, 2011.

Net cash used in investing activities was $25.2 million during fiscal 2011, compared to net cash used of $55.2 million during fiscal 2010. The decrease in cash outflows was principally due to a decrease of $19.8 million in net purchases of investments.

We anticipate capital expenditures of approximately $8 to $12 million for fiscal 2012. Additionally, as part of our growth strategy, we expect to evaluate opportunities to invest in or acquire other businesses, intellectual property or technologies that would complement or expand our current offerings, expand the breadth of our markets or enhance our technical capabilities.

Net cash used in financing activities was $107.2 million during fiscal 2011, compared to net cash used of $119.9 million during fiscal 2010. The decrease in cash outflows was principally due to a decrease of $30.3 million for repurchases of our common stock, offset by a decrease of $10.4 million from proceeds from the issuance of common stock, net of shares withheld for taxes and a payment of $7.2 million on debt acquired in the acquisition of Spectra Linear. In October 2011, our Board of Directors authorized a program to repurchase up to $50 million of our common stock through April 2012.

Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2011 (in thousands):

	Payments due by period						
	Total	2012	2013	2014	2015	2016	Thereafter
Operating lease obligations (1)	$ 17,670	$ 6,630	$ 3,347	$ 1,664	$ 1,515	$ 1,518	$ 2,996
Purchase obligations (2)	25,411	25,377	34	—	—	—	—
Other long-term obligations (3)	8,062	—	5,807	1,991	—	—	264

(1) Operating lease obligations include amounts for leased facilities.

(2) Purchase obligations include contractual arrangements in the form of purchase orders with suppliers where there is a fixed non-cancelable payment schedule or minimum payments due with a reduced delivery schedule.

(3) We are unable to make a reasonably reliable estimate as to when or if cash settlement with taxing authorities will occur for our unrecognized tax benefits. Therefore, our liability of $10.9 million for unrecognized tax benefits is not included in the table above. See Note 15, *Income Taxes,* to the Consolidated Financial Statements for additional information.

Our future capital requirements will depend on many factors, including the rate of sales growth, market acceptance of our products, the timing and extent of research and development projects, potential acquisitions of companies or technologies and the expansion of our sales and marketing activities. We believe our existing cash and investment balances are sufficient to meet our capital requirements through at least the next 12 months, although we could be required, or could elect, to seek additional funding prior to that time. We may enter into acquisitions or strategic arrangements in the future which also could require us to seek additional equity or debt financing.

Off-Balance Sheet Arrangements

In March 2006, we entered into an operating lease agreement and a related participation agreement for a facility at 400 W. Cesar Chavez ("400 WCC") in Austin, Texas for our corporate headquarters. The lease has a term of seven years. The base rent for the term of the lease is an amount equal to the interest accruing on $44.3 million at 110 basis points over the three-month LIBOR (which would be approximately $0.9 million over the remaining term assuming LIBOR averages 0.56% during such term).

In March 2008, we entered into an operating lease agreement and a related participation agreement for a facility at 200 W. Cesar Chavez ("200 WCC") in Austin, Texas for the expansion of our corporate headquarters. The lease has a term of five years. The base rent for the term of the lease is an amount equal to the interest accruing on $50.1 million at 155 basis points over the three-month LIBOR (which would be approximately $1.3 million over the remaining term assuming LIBOR averages 0.56% during such term).

We have granted certain rights and remedies to the lessors in the event of certain defaults, including the right to terminate the leases, to bring suit to collect damages, and to compel us to purchase the facilities. The leases contain other customary representations, warranties, obligations, conditions, indemnification provisions and termination provisions, including covenants that we shall maintain unencumbered cash and highly-rated short-term investments of at least $75 million. If our unencumbered cash and highly-rated short-term investments are less than $150 million, we must also maintain a ratio of funded debt to earnings before interest expense, income taxes, depreciation, amortization, lease expense and other non-cash charges (EBITDAR) over the four prior fiscal quarters of no greater than 2 to 1. As of December 31, 2011, we believe we were in compliance with all covenants of the leases.

During the terms of the leases, we have on-going options to purchase the buildings for purchase prices of approximately $44.3 million for 400 WCC and $50.1 million for 200 WCC. Alternatively, we can cause each such property to be sold to third parties provided we are not in default under that property's lease. We are contingently liable on a first dollar loss basis for up to $35.3 million to the extent that the 400 WCC sale proceeds are less than the $44.3 million purchase option and up to $40.0 million to the extent that the 200 WCC sale proceeds are less than the $50.1 million purchase option.

We determined that the fair value associated with the guaranteed residual values was $1.0 million for 400 WCC and $1.2 million for 200 WCC, as of the inception of the leases. These amounts were recorded in "Other assets, net" and "Long-term obligations and other liabilities" in the Consolidated Balance Sheets and are being amortized over the term of the leases.

We are required to periodically evaluate the expected fair value of each facility at the end of the lease terms. If we determine that it is estimable and probable that the expected fair values will be less than $44.3 million for 400 WCC and $50.1 million for 200 WCC, we will ratably accrue the loss up to a maximum of approximately $35.3 million and $40.0 million, respectively, over the remaining lease terms as additional rent expense. As of December 31, 2011, we do not believe that a loss contingency accrual is required for either property. However, a prolonged economic downturn could increase the likelihood of such a loss accrual.

In connection with our headquarters leases, during fiscal 2008 we entered into interest rate swap agreements as a hedge against the variable rent under the leases. Under the terms of the swap agreements, we have effectively converted the variable rents to fixed rents through March 2011 for 400

WCC and March 2013 for 200 WCC. See Note 5, *Derivative Financial Instruments*, to the Consolidated Financial Statements for additional information.

Critical Accounting Policies and Estimates

The preparation of financial statements and accompanying notes in conformity with U.S. generally accepted accounting principles requires that we make estimates and assumptions that affect the amounts reported. Changes in facts and circumstances could have a significant impact on the resulting estimated amounts included in the financial statements. We believe the following critical accounting policies affect our more complex judgments and estimates. We also have other policies that we consider to be key accounting policies, such as our policies for revenue recognition, including the deferral of revenues and cost of revenues on sales to distributors; however, these policies do not meet the definition of critical accounting estimates because they do not generally require us to make estimates or judgments that are difficult or subjective.

Inventory valuation—We assess the recoverability of inventories through the application of a set of methods, assumptions and estimates. In determining net realizable value, we write down inventory that may be slow moving or have some form of obsolescence, including inventory that has aged more than 12 months. We also adjust the valuation of inventory when its standard cost exceeds the estimated market value less selling costs. We assess the potential for any unusual customer returns based on known quality or business issues and write-off inventory losses for scrap or non-saleable material. Inventory not otherwise identified to be written down is compared to an assessment of our 12-month forecasted demand. The result of this methodology is compared against the product life cycle and competitive situations in the marketplace to determine the appropriateness of the resulting inventory levels. Demand for our products may fluctuate significantly over time, and actual demand and market conditions may be more or less favorable than those that we project. In the event that actual demand is lower or market conditions are worse than originally projected, additional inventory write-downs may be required.

Stock-based compensation—We recognize the fair-value of stock-based compensation transactions in the Consolidated Statement of Income. The fair value of our full-value stock awards (with the exception of market-based performance awards) equals the fair market value of our stock on the date of grant. The fair value of our market-based performance award grants is estimated at the date of grant using a Monte-Carlo simulation. The fair value of our stock option and Employee Stock Purchase Plan grants is estimated at the date of grant using the Black-Scholes option pricing model. In addition, we are required to estimate the expected forfeiture rate of our stock grants and only recognize the expense for those shares expected to vest. If our actual experience differs significantly from the assumptions used to compute our stock-based compensation cost, or if different assumptions had been used, we may have recorded too much or too little stock-based compensation cost. See Note 12, *Stock-Based Compensation*, to the Consolidated Financial Statements for additional information.

Investments in auction-rate securities—We determine the fair value of our investments in auction-rate securities using a discounted cash flow model. The assumptions used in preparing the discounted cash flow model include estimates for interest rates, amount of cash flows, expected holding periods of the securities and a discount to reflect our inability to liquidate the securities. For available-for-sale auction-rate securities, if the calculated value is below the carrying amount of the securities, we then determine if the decline in value is other-than-temporary. We consider various factors in determining whether an impairment is other-than-temporary, including the severity and duration of the impairment, changes in underlying credit ratings, forecasted recovery, our intent to sell or the likelihood that we would be required to sell the investment before its anticipated recovery in market value and the probability that the scheduled cash payments will continue to be made. When we conclude that an other-than-temporary impairment has occurred, we assess whether we intend to sell the security or if it is more likely than not that we will be required to sell the security before recovery. If either of these two conditions is met, we recognize a charge in earnings equal to the entire difference between the security's amortized cost basis and its fair value. If we do not intend to sell a security and it is not more likely than not that we will be required to sell the security before recovery, the unrealized loss is separated into an amount representing the credit loss, which is recognized in earnings, and the amount related to all other factors, which is recorded in accumulated other comprehensive loss.

Acquired intangible assets—When we acquire a business, a portion of the purchase price is typically allocated to identifiable intangible assets, such as acquired technology and customer relationships. Fair value of these assets is determined primarily using the income approach, which requires us to project future cash flows and apply an appropriate discount rate. We amortize intangible assets with finite lives over their expected useful lives. Our estimates are based upon assumptions believed to be reasonable but which are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate, and unanticipated events and circumstances may occur. Incorrect estimates could result in future impairment charges, and those charges could be material to our results of operations.

Impairment of goodwill and other long-lived assets—We review long-lived assets which are held and used, including fixed assets and purchased intangible assets, for impairment whenever changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Such evaluations compare the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset over its expected useful life and are significantly impacted by estimates of future prices and volumes for our products, capital needs, economic trends and other factors which are inherently difficult to forecast. If the asset is considered to be impaired, we record an impairment charge equal to the amount by which the carrying value of the asset exceeds its fair value determined by either a quoted market price, if any, or a value determined by utilizing a discounted cash flow technique.

We test our goodwill for impairment annually as of the first day of our fourth fiscal quarter and in interim periods if certain events occur indicating that the carrying value of goodwill may be impaired. The goodwill impairment test is a two-step process. The first step of the impairment analysis compares our fair value to our net book value. In determining fair value, the accounting guidance allows for the use of several valuation methodologies, although it states quoted market prices are the best evidence of fair value. If the fair value is less than the net book value, the second step of the analysis compares the implied fair value of our goodwill to its carrying amount. If the carrying amount of goodwill exceeds its implied fair value, we recognize an impairment loss equal to that excess amount.

Income taxes—We are required to calculate income taxes in each of the jurisdictions in which we operate. This process involves calculating the actual current tax liability together with assessing temporary differences in recognition of income (loss) for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our Consolidated Balance Sheet. We then assess the likelihood that the deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, we establish a valuation allowance against the deferred tax asset.

We recognize liabilities for uncertain tax positions based on a two-step process. The first step requires us to determine if the weight of available evidence indicates that the tax position has met the threshold for recognition; therefore, we must evaluate whether it is more likely than not that the position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step requires us to measure the tax benefit of the tax position taken, or expected to be taken, in an income tax return as the largest amount that is more than 50% likely of being realized upon ultimate settlement. This measurement step is inherently complex and requires subjective estimations of such amounts to determine the probability of various possible outcomes. We re-evaluate the uncertain tax positions each quarter based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, expirations of statutes of limitation, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision in the period.

Although we believe the measurement of our liabilities for uncertain tax positions is reasonable, no assurance can be given that the final outcome of these matters will not be different than what is reflected in the historical income tax provisions and accruals. If additional taxes are assessed as a result of an audit or litigation, it could have a material effect on our income tax provision and net income in the period or periods for which that determination is made. We operate within multiple taxing jurisdictions and are subject to audit in these jurisdictions. These audits can involve complex issues which may require an extended period of time to resolve and could result in additional assessments of income tax. We believe adequate provisions for income taxes have been made for all periods.

Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Update (ASU) No. 2011-11, *Balance Sheet (Topic 210)—Disclosures about Offsetting Assets and Liabilities*. ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. Entities are required to disclose both gross and net information about these instruments. ASU 2011-11 is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this ASU is not expected to have a material impact on our financial statements.

In September 2011, the FASB issued FASB ASU No. 2011-08, *Intangibles—Goodwill and Other (Topic 350)—Testing Goodwill for Impairment*. ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If an entity determines it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then it is required to perform the two-step impairment test. If an entity concludes otherwise, then the two-step impairment test is not required. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of this ASU is not expected to have a material impact on our financial statements.

In June 2011, the FASB issued FASB ASU No. 2011-05, *Comprehensive Income (Topic 220)—Presentation of Comprehensive Income*. This ASU requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. In December 2011, the FASB issued FASB ASU No. 2011-12, *Comprehensive Income (Topic 220)—Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05.* ASU 2011-12 defers the effective date pertaining to presenting reclassification adjustments by component in both the statements where net income and other comprehensive income are presented. ASU 2011-05 and ASU 2011-12 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and are to be applied retrospectively. The adoptions of these ASUs are not expected to have a material impact on our financial position or results of operations, but will result in an additional statement of other comprehensive income.

In May 2011, the FASB issued FASB ASU No. 2011-04,*Fair Value Measurement (Topic 820)—Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* This ASU provides a consistent definition of fair value between U.S. GAAP and International Financial Reporting Standards. Additionally, the ASU changes certain fair value measurement principles and expands the disclosures for fair value measurements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011 and is to be applied prospectively. The adoption of this ASU is not expected to have a material impact on our financial statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest Income

Our investment portfolio includes cash, cash equivalents, short-term investments and long-term investments. Our main investment objectives are the preservation of investment capital and the maximization of after-tax returns on our investment portfolio. Our interest income is sensitive to changes in the general level of U.S. interest rates. Our investment portfolio holdings as of December 31, 2011 and January 1, 2011 yielded less than 100 basis points. A decline in yield to zero basis points on our investment portfolio holdings as of December 31, 2011 and January 1, 2011 would decrease our annual interest income by approximately $1.9 million and $2.2 million, respectively. We believe that our investment policy meets our investment objectives, both in the duration of our investments and the credit quality of the investments we hold.

Headquarters Lease Rent

We are exposed to interest rate fluctuations in the normal course of our business, including through our corporate headquarters leases. The base rents for these leases are calculated using a variable interest rate based on the three-month LIBOR. We entered into interest rate swap agreements with notional values of $44.3 million and $50.1 million and, effectively, fixed the rent payment amounts on these leases through March 2011 and March 2013, respectively. In March 2011, the Company's swap agreement with a notional value of $44.3 million matured and was not renewed. The fair value of the remaining interest rate swap agreement at December 31, 2011 was a $2.0 million obligation. An immediate 100 basis point increase in the three-month LIBOR would increase the annual base rent of our lease that is no longer hedged by approximately $0.4 million.

Investments in Auction-rate Securities

Beginning in fiscal 2008, auctions for many of our auction-rate securities failed because sell orders exceeded buy orders. As of December 31, 2011, we held $19.2 million par value auction-rate securities, all of which have experienced failed auctions. The principal amounts associated with failed auctions are not expected to be accessible until a successful auction occurs, the issuer redeems the securities, a buyer is found outside of the auction process or the underlying securities mature. We are unable to predict if these funds will become available before their maturity dates. Additionally, if we determine that an other-than-temporary decline in the fair value of any of our available-for-sale auction-rate securities has occurred, we may be required to adjust the carrying value of the investments through an impairment charge.

Item 8. Financial Statements and Supplementary Data

The Financial Statements and supplementary data required by this item are included in Part IV, Item 15 of this Form 10-K and are presented beginning on page F-1.