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 2015 was a 52-week year and ended on January 2, 2016. Fiscal 2014 was a 53-week year with the extra week occurring in the fourth quarter of the year and ended on January 3, 2015. Fiscal 2013 was a 52-week year and ended on December 28, 2013.

Overview

We are a provider of silicon, software and solutions for the Internet of Things (IoT), Internet infrastructure, industrial control, consumer and automotive markets. We solve some of the electronics industry's toughest problems, providing customers with significant advantages in performance, energy savings, connectivity and design simplicity. Mixed-signal integrated circuits (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 products addressing a variety of markets, including industrial, communications, consumer and automotive. Our major customers include Chamberlain, Cisco, Harman Becker, Huawei, LG Electronics, Samsung, Technicolor, Technisat, 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:

- Internet of Things products, which include our microcontroller (MCU), wireless, sensor and analog products;
- Broadcast products, which include our broadcast consumer and automotive products;
- Infrastructure products, which include our timing products (clocks and oscillators), and isolation devices; and
- Access products, which include our Voice over IP (VoIP) products, embedded modems and our Power over Ethernet (PoE) devices.

We previously grouped IoT products and Infrastructure products under the Broad-based products heading.

Through acquisitions and internal development efforts, we have continued to diversify our product portfolio and introduce new products and solutions with added functionality and further integration. In fiscal 2015, we acquired Bluegiga Technologies Oy and Telegesis (UK) Limited. Bluegiga is a provider of Bluetooth Smart, Bluetooth Classic and Wi-Fi modules and software stacks for a multitude of applications in the IoT, industrial automation, consumer electronics, automotive, retail, residential, and health and fitness markets. Telegesis is a supplier of wireless mesh networking modules based on our

ZigBee and Thread technology, targeting applications in the smart energy, home automation and industrial automation markets. See Note 9*Acquisitions*, for additional information.

In fiscal 2015, we introduced two new EFM32 Gecko MCU families that provide advancements in security and energy management technologies; the TouchXpress™ family of fixed-function controllers, which speeds development of capacitive sensing applications; a new EFM8 MCU family that delivers high analog performance and peripheral integration in the 8-bit market; comprehensive reference designs that reduce time to market and simplify the development of ZigBee-based home automation, connected lighting and smart gateway products; a new family of multi-channel digital isolators featuring a high-voltage isolation barrier designed to withstand 10 kV surge hits; a new family of subscriber line interface circuits (SLICs) offering low power consumption, small footprint, and high levels of integration and programmability for the VoIP gateway market; a comprehensive reference design solution that streamlines the development of voice-enabled ZigBee remote controls; a sixth-generation version of the iWRAP™ Bluetooth software stack for the Bluetooth 3.0 wireless audio accessory market; an isolated current sense amplifier delivering high bandwidth and low signal delay; a fully integrated, pre-certified Blue Gecko wireless module providing a plug-and-play solution for Bluetooth Smart connectivity; a low-jitter, small-footprint and low-power network synchronizer clock; a new release of the Simplicity Studio development platform featuring an enhanced real-time Energy Profiler tool; the release of the Thread protocol stack providing IP-based mesh networking technology for the Connected Home market; a highly integrated clock IC for wireless infrastructure applications including base stations; a dual-mode Bluetooth module solution that supports both Bluetooth Smart and Bluetooth Classic wireless technologies; energy-friendly USB-enabled MCUs for power-sensitive IoT applications; a complete Wireless M-Bus platform solution for wirelessly connected smart meters in the European market; high-speed, multi-channel digital isolators targeting industrial applications; a digital audio bridge chip and evaluation kit designed to simplify the development of accessories for iOS devices; a portfolio of receivers/audio processors and multi-standard digital radio ICs for the global car radio market; a family of high-performance digital set-top box tuner ICs designed to reduce system cost and power consumption; the Blue Gecko product portfolio featuring Bluetooth Smart modules and wireless SoC devices for a wide range of wireless IoT designs; the next generation of Simplicity Studio enabling concurrent MCU and RF design; next-generation 8-bit MCUs designed for ultra-low-power, small-footprint IoT applications; 32-bit sub-GHz wireless MCUs designed to simplify a wide range of IoT connectivity applications; and high-precision temperature sensors offering exceptional power efficiency. 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 expand our total available market opportunity.

During fiscal 2015, we had no customer that represented more than 10% of our revenues. During fiscal 2014 and 2013, we had one customer, Samsung, whose purchases across a variety of product areas represented 12% and 15% of our revenues, respectively. 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. Two of our distributors, Edom Technology and Avnet, represented 20% and 12% of our revenues during fiscal 2015, 20% and 12% of our revenues during fiscal 2014, and 21% and 11% of our revenues during fiscal 2013, respectively. There were no other distributors or contract manufacturers that accounted for more than 10% of our revenues in fiscal 2015, 2014 or 2013.

The percentage of our revenues derived from outside of the United States was 85% in fiscal 2015, 86% in fiscal 2014 and 88% in fiscal 2013. Substantially 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, radios and wearables, 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 predominately by sales of our products. 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. A small portion of our revenues is derived from the sale of patents. The above revenue recognition criteria for patent sales are generally met upon the execution of the patent sale agreement. 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, as well as new product masks, external consulting and services costs, equipment tooling, equipment depreciation, amortization of intangible assets, and an allocated portion of our occupancy costs. 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, as well as an allocated 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, including our credit facilities.

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 for Income Taxes. Provision for income taxes includes both domestic and foreign income taxes at the applicable tax 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		
	2015	2014	2013
Revenues	100.0%	100.0%	100.0%
Cost of revenues	40.9	39.0	39.2
Gross margin	59.1	61.0	60.8
Operating expenses:			
Research and development	29.2	27.9	27.2
Selling, general and administrative	24.9	24.8	22.5
Operating expenses	54.1	52.7	49.7
Operating income	5.0	8.3	11.1
Other income (expense):			
Interest income	0.1	0.2	0.2
Interest expense	(0.4)	(0.6)	(0.6)
Other income (expense), net	0.0	0.0	0.0
Income before income taxes	4.7	7.9	10.7
Provision for income taxes	0.1	1.8	2.1
Net income	4.6%	6.1%	8.6%

Comparison of Fiscal 2015 to Fiscal 2014

Revenues

(in millions)	Fiscal Year 2015	Fiscal Year 2014	Change	% Change
Internet of Things	$ 262.3	$ 209.0	$ 53.3	25.5%
Broadcast	161.8	204.3	(42.5)	(20.8)%
Infrastructure	122.0	108.1	13.9	12.8%
Access	98.7	99.3	(0.6)	(0.6)%
Revenues	$ 644.8	$ 620.7	$ 24.1	3.9%

The change in revenues in fiscal 2015 was due primarily to:

- Increased revenues of $53.3 million for our Internet of Things products, due primarily to market share gains for our products, increases in the market and the addition of revenues from acquisitions.

- Decreased revenues of $42.5 million for Broadcast products, due primarily to decreases in our market share and the market for our consumer products and the sale of patents for $7.1 million in the fiscal 2014. The decrease in Broadcast revenues was offset by increased revenues for our automotive products due to increases in market share.

- Increased revenues of $13.9 million for our Infrastructure products, due primarily to market share gains.

- Decreased revenues of $0.6 million for our Access products.

Unit volumes of our products increased by 3.4% and average selling prices increased by 1.7% compared to fiscal 2014. 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

(in millions)	Fiscal Year 2015	Fiscal Year 2014	Change
Gross margin	$ 380.8	$ 378.6	$ 2.2
Percent of revenue	59.1%	61.0%	(1.9)%

The increased dollar amount of gross margin in fiscal 2015 was due to increases in gross margin of $18.8 million for our Internet of Things products, $8.1 million for our Infrastructure products and $0.6 million for our Access products, offset by a decrease in gross margin of $25.3 million for our Broadcast products. Gross margin in fiscal 2015 included $2.6 million in acquisition-related charges for the fair value write-up associated with inventory acquired from Bluegiga and Telegesis. Gross margin in fiscal 2014 included $7.1 million from the sale of patents, which had no associated cost of revenues.

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 products; 2) reduce costs of existing products through improved design; 3) achieve lower production costs from our wafer suppliers and third-party assembly and test subcontractors; 4) achieve lower production costs per unit as a result of improved yields throughout the manufacturing process; or 5) reduce logistics costs.

Research and Development

(in millions)	Fiscal Year 2015	Fiscal Year 2014	Change	% Change
Research and development	$ 188.1	$ 173.0	$ 15.1	8.7%
Percent of revenue	29.2%	27.9%		

The increase in research and development expense in fiscal 2015 was principally due to increases of (a) $9.7 million for personnel-related expenses, including costs associated with increased headcount, and (b) $6.7 million for the amortization of intangible assets. We expect that research and development expense will increase in absolute dollars in the first quarter of 2016.

Recent development projects include two new EFM32 Gecko MCU families that provide advancements in security and energy management technologies; the TouchXpress family of fixed-function controllers, which speeds development of capacitive sensing applications; a new EFM8 MCU family that delivers high analog performance and peripheral integration in the 8-bit market; comprehensive reference designs that reduce time to market and simplify the development of ZigBee-based home automation, connected lighting and smart gateway products; a new family of multi-channel digital isolators featuring a high-voltage isolation barrier designed to withstand 10 kV surge hits; a new family of SLICs offering low power consumption, small footprint, and high levels of integration and programmability for the VoIP gateway market; a comprehensive reference design solution that streamlines the development of voice-enabled ZigBee remote controls; a sixth-generation version of the iWRAP Bluetooth software stack for the Bluetooth 3.0 wireless audio accessory market; an isolated current sense amplifier delivering high bandwidth and low signal delay; a fully integrated, pre-certified Blue Gecko wireless module providing a plug-and-play solution for Bluetooth Smart connectivity; a low-jitter, small-footprint and low-power network synchronizer clock; a new release of the Simplicity Studio development platform featuring an enhanced real-time Energy Profiler tool; the release of the Thread protocol stack providing IP-based mesh networking technology for the Connected Home market; a highly integrated clock IC for wireless infrastructure applications including base stations; a dual-mode Bluetooth module solution that supports both Bluetooth Smart and Bluetooth Classic wireless technologies; energy-friendly USB-enabled MCUs for power-sensitive IoT applications; a complete Wireless M-Bus platform solution for wirelessly connected smart meters in the European market; high-speed, multi-channel digital isolators targeting industrial applications; a digital audio bridge chip and evaluation kit designed to simplify the development of accessories for iOS devices; a portfolio of receivers/audio processors and multi-standard digital radio ICs for the global car radio market; a family of high-performance digital set-top box tuner ICs designed to reduce system cost and power consumption; the Blue Gecko product portfolio featuring Bluetooth Smart modules and wireless SoC devices for a wide range of wireless IoT designs; the next generation of Simplicity Studio enabling concurrent MCU and RF design; next-generation 8-bit MCUs designed for ultra-low-power, small-footprint IoT applications; 32-bit sub-GHz wireless MCUs designed to simplify a wide range of IoT connectivity applications; and high-precision temperature sensors offering exceptional power efficiency.

Selling, General and Administrative

(in millions)	Fiscal Year 2015	Fiscal Year 2014	Change	% Change
Selling, general and administrative	$ 160.5	$ 154.1	$ 6.4	4.1%
Percent of revenue	24.9%	24.8%		

The increase in selling, general and administrative expense in fiscal 2015 was principally due to increases of (a) $10.8 million for personnel-related expenses, including costs associated with increased headcount, (b) $1.9 million for the amortization of intangible assets, (c) $1.6 million for acquisition-related costs, and (d) $1.0 million for product marketing costs. The increase in selling, general and administrative expense was offset in part by decreases of (a) $6.3 million for legal fees, primarily related to litigation, and (b) $5.2 million for adjustments to the fair value of acquisition-related contingent consideration. We expect that selling, general and administrative expense will increase in absolute dollars in the first quarter of 2016.

Interest Income

Interest income in fiscal 2015 was $0.7 million compared to $1.0 million in fiscal 2014.

Interest Expense

Interest expense in fiscal 2015 was $2.8 million compared $3.2 million in fiscal 2014.

Other Income (Expense), Net

Other income (expense), net in fiscal 2015 was $0.1 million compared to $(0.2) million in fiscal 2014.

Provision for Income Taxes

	Fiscal Year		
(in millions)	**2015**	**2014**	**Change**
Provision for income taxes	$ 0.7	$ 11.0	$ (10.3)
Effective tax rate	2.2%	22.5%	

The effective tax rate for fiscal 2015 decreased from fiscal 2014, primarily due to the completion of payments related to a prior year intercompany licensing arrangement resulting in an increase to the foreign tax rate benefit as well as the recognition of a net benefit resulting from a change in the tax accounting treatment of stock-based compensation in a cost-sharing arrangement following a recent U.S. Tax Court case (Altera). See Note 17, *Income Taxes*, for additional information.

The decrease in the effective tax rate from the completion of payments related to a prior year intercompany licensing arrangement and the recognition of a net benefit from the Altera case, was partially offset by an increase in the prior year valuation allowance related to lower expectations of profitability in jurisdictions where tax attributes exist. Additionally, the Company expects a lower realization of the recently re-enacted U.S. federal research and development tax credit as compared to the realization of the U.S. federal research and development tax credit in the prior year.

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 and other permanent items including nondeductible compensation expenses and research and development tax credits.

Comparison of Fiscal 2014 to Fiscal 2013

Revenues

(in millions)	Fiscal Year 2014	Fiscal Year 2013	Change	% Change
Internet of Things	$ 209.0	$ 181.3	$ 27.7	15.3%
Broadcast	204.3	199.8	4.5	2.2%
Infrastructure	108.1	100.5	7.6	7.6%
Access	99.3	98.5	0.8	0.9%
Revenues	$ 620.7	$ 580.1	$ 40.6	7.0%

The change in revenues in fiscal 2014 was due primarily to:

- Increased revenues of $27.7 million for our Internet of Things products, due primarily to market share gains for our MCU, wireless and sensor products, including products acquired from Energy Micro in July 2013. Internet of Things revenue growth was offset in part by a decline in revenue for our touch controller products due to our exit from this market.
- Increased revenues of $4.5 million for Broadcast, due primarily to an increase in market share for our automotive products and the sale of patents of $7.1 million. The increase in Broadcast revenues was offset by decreased revenues for our consumer products due to declines in market share.
- Increased revenues of $7.6 million for our Infrastructure products, due primarily to market share gains.

Unit volumes of our products increased by 5.2% and average selling prices increased by 0.7% compared to fiscal 2013.

Gross Margin

(in millions)	Fiscal Year 2014	Fiscal Year 2013	Change
Gross margin	$ 378.6	$ 352.9	$ 25.7
Percent of revenue	61.0%	60.8%	0.2%

The increased dollar amount of gross margin in fiscal 2014 was due to increases in gross margin of $18.0 million for our Internet of Things products, $7.4 million for our Infrastructure products and $2.2 million for our Broadcast products, offset by a decrease in gross margin of $1.9 million for our Access products. Fiscal 2014 includes gross margin from the sale of patents of $7.1 million, which had no associated cost of revenues.

Research and Development

(in millions)	Fiscal Year 2014	Fiscal Year 2013	Change	% Change
Research and development	$ 173.0	$ 157.8	$ 15.2	9.6%
Percent of revenue	27.9%	27.2%		

The increase in research and development expense in fiscal 2014 was principally due to increases of (a) $11.0 million for personnel-related expenses, including personnel costs associated with (i) increased headcount, and (ii) the acquisition of Energy Micro, and (b) $2.9 million for the amortization of intangible assets primarily related to our acquisition of Energy Micro.

Selling, General and Administrative

(in millions)	Fiscal Year 2014	Fiscal Year 2013	Change	% Change
Selling, general and administrative	$ 154.1	$ 130.8	$ 23.3	17.9%
Percent of revenue	24.8%	22.5%		

The increase in selling, general and administrative expense in fiscal 2014 was principally due to increases of (a) $11.0 million for adjustments to the fair value of acquisition-related contingent consideration, (b) $7.5 million for legal fees, primarily related to litigation, and (c) $7.5 million for personnel-related expenses, primarily associated with (i) increased headcount, and (ii) the acquisition of Energy Micro. The increase in selling, general and administrative expense in fiscal 2014 was offset in part by acquisition-related costs of $1.5 million in fiscal 2013.

Interest Income

Interest income in fiscal 2014 was $1.0 million compared to $0.9 million in fiscal 2013.

Interest Expense

Interest expense in fiscal 2014 was $3.2 million compared $3.3 million in fiscal 2013.

Other Income (Expense), Net

Other income (expense), net in fiscal 2014 was $(0.2) million compared to $0.2 million in fiscal 2013.

Provision for Income Taxes

(in millions)	Fiscal Year 2014	Fiscal Year 2013	Change
Provision for income taxes	$ 11.0	$ 12.2	$ (1.2)
Effective tax rate	22.5%	19.7%	

The effective tax rate for fiscal 2014 increased from fiscal 2013, primarily due to the recognition of the fiscal 2012 federal research and development tax credit in fiscal 2013 due to the enactment of the American Taxpayer Relief Act of 2012 on January 2, 2013, as well as a decrease in the foreign tax rate benefit in fiscal 2014. This increase in the effective tax rate was partially offset by the reduction to a valuation allowance recorded in a prior year related to certain state loss and research and development tax credit carryforwards and the release in fiscal 2014 of prior year unrecognized tax benefits due to the lapse of the statute of limitations applicable to a tax deduction claimed on a prior year foreign tax return.

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 2016 to be in the range of $157 to $162 million. Furthermore, we expect our diluted earnings (loss) per share to be in the range of $(0.08) to $(0.02).

Liquidity and Capital Resources

Our principal sources of liquidity as of January 2, 2016 consisted of $243.0 million in cash, cash equivalents and short-term investments, of which approximately $164.5 million was held by our U.S. entities. The remaining balance was held by our foreign subsidiaries. Our cash equivalents and short-term investments consisted of municipal bonds, money market funds, commercial paper, certificates of deposit, variable-rate demand notes, U.S. government agency, international government bonds and corporate bonds.

Our long-term investments consisted of auction-rate securities. In fiscal 2008, auctions for many of our auction-rate securities failed because sell orders exceeded buy orders. As of January 2, 2016, we held $8.0 million par value auction-rate securities, all of which have experienced failed auctions. These securities have contractual maturity dates ranging from 2033 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.

Operating Activities

Net cash provided by operating activities was $105.4 million during fiscal 2015, compared to net cash provided of $137.4 million during fiscal 2014. Operating cash flows during fiscal 2015 reflect our net income of $29.6 million, adjustments of $80.2 million for depreciation, amortization, stock-based compensation and deferred income taxes, and a net cash outflow of $4.4 million due to changes in our operating assets and liabilities.

Net cash provided by operating activities was $137.4 million during fiscal 2014, compared to net cash provided of $120.2 million during fiscal 2013. Operating cash flows during fiscal 2014 reflect our net income of $38.0 million, adjustments of $72.4 million for depreciation, amortization, stock-based compensation and deferred income taxes, and a net cash inflow of $27.0 million due to changes in our operating assets and liabilities.

Accounts receivable increased to $73.6 million at January 2, 2016 from $70.4 million at January 3, 2015. The increase in accounts receivable resulted primarily from normal variations in the timing of collections and billings. Our average days sales outstanding (DSO) was 41 days at January 2, 2016 and 39 days at January 3, 2015.

Inventory increased to $53.9 million at January 2, 2016 from $52.6 million at January 3, 2015. 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 73 days at January 2, 2016 and January 3, 2015.

Investing Activities

Net cash used in investing activities was $49.3 million during fiscal 2015, compared to net cash used of $26.3 million during fiscal 2014. The increase in cash outflows was principally due to $96.1 million in net payments for the acquisition of businesses, including $76.1 million for the purchase of Bluegiga and Telegesis and $20.0 million for consideration previously withheld in connection with our purchase of Energy Micro, offset by an increase of $74.0 million from net proceeds from the sales and maturities of marketable securities. See Note 9, *Acquisitions*, for additional information.

Net cash used in investing activities was $26.3 million during fiscal 2014, compared to net cash used of $105.9 million during fiscal 2013. The decrease in cash outflows was principally due to a net payment of $86.4 million for the acquisition of Energy Micro during fiscal 2013, offset by a decrease of $6.5 million of net proceeds from sales and maturities of marketable securities.

We anticipate capital expenditures of approximately $14 to $16 million for fiscal 2016. 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.

Financing Activities

Net cash used in financing activities was $83.8 million during fiscal 2015, compared to net cash used of $65.2 million during fiscal 2014. The increase in cash outflows was principally due to an increase of $87.2 million in payments on debt and a decrease of $10.2 million from proceeds from the issuance of common stock, net of cash paid for withheld taxes, offset by net proceeds of $81.2 million from the issuance of long-term debt. In July 2015, we amended our Credit Agreement. In August 2015, the Board of Directors authorized a program to repurchase up to $100 million of our common stock through December 2016.

Net cash used in financing activities was $65.2 million during fiscal 2014, compared to net cash used of $23.9 million during fiscal 2013. The increase in cash outflows was principally due to an increase of $45.7 million for repurchases of our common stock.

Debt

On July 31, 2012, we entered into a $230 million five-year Credit Agreement (the "Credit Agreement"), which consisted of a $100 million Term Loan Facility and a $130 million Revolving Credit Facility (collectively, the "Credit Facilities"). On July 24, 2015, we amended the Credit Agreement (the "Amended Credit Agreement") in order to, among other things, increase the borrowing capacity under the Revolving Credit Facility to $300 million, eliminate the Term Loan Facility and extend the maturity date to five years from the closing date. On July 24, 2015, we borrowed $82.5 million under the Amended Credit Agreement and paid off the remaining balance of our Term Loan Facility.

The Amended Credit Agreement includes a $25 million letter of credit sublimit and a $10 million swingline loan sublimit. We also have an option to increase the size of the borrowing capacity by up to an aggregate of $200 million in additional commitments, subject to certain conditions.

The Revolving Credit Facility, other than swingline loans, will bear interest at the Eurodollar rate plus an applicable margin or, at our option, a base rate (defined as the highest of the Wells Fargo prime rate, the Federal Funds rate plus 0.50% and the Eurodollar Base Rate plus 1.00%) plus an applicable margin. Swingline loans accrue interest at the base rate plus the applicable margin for base rate loans. The applicable margins for the Eurodollar rate loans range from 1.25% to 2.00% and for base rate loans range from 0.25% to 1.00%, depending in each case, on the leverage ratio as defined in the Agreement.

The Amended Credit Agreement contains various conditions, covenants and representations with which we must be in compliance in order to borrow funds and to avoid an event of default, including financial covenants that we must maintain a leverage ratio (funded debt/EBITDA) of no more than 3.00 to 1 and a minimum fixed charge coverage ratio (EBITDA/interest payments, income taxes and capital expenditures) of no less than 1.25 to 1. As of January 2, 2016, we were in compliance with all covenants of the Amended Credit Agreement. Our obligations under the Amended Credit Agreement are secured by a security interest in substantially all of our assets.

We have entered into an interest rate swap agreement as a hedge against the Eurodollar portion of the variable interest payments under the Credit Facilities and effectively converted the Eurodollar portion of the interest on the Credit Facilities to a fixed interest rate through July 2017. See Note 5, *Derivative Financial Instruments*, 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, cash equivalents, investments and credit under our Credit Facilities 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.

Contractual Obligations

The following table summarizes our contractual obligations as of January 2, 2016 (in thousands):

	Payments due by period						
	Total	2016	2017	2018	2019	2020	Thereafter
Long-term debt obligations (1)	$ 77,500	$ —	$ —	$ —	$ —	$ 77,500	$ —
Interest on long-term debt obligations (2)	12,573	2,230	2,453	3,013	3,074	1,803	—
Operating lease obligations (3)	21,415	5,438	4,394	2,917	1,812	1,514	5,340
Purchase obligations (4)	32,735	32,735	—	—	—	—	—
Other long-term obligations (5)	10,707	—	2,942	4,117	3,648	—	—

(1) Long-term debt obligations represent the principal portion of our Credit Facilities and include amounts classified as current portion of long-term debt.

(2) Interest on our long-term debt obligations is based on the Eurodollar Base Rate plus an applicable margin. We have entered into an interest rate swap agreement as a hedge against the Eurodollar portion of such variable interest payments and effectively converted the Eurodollar portion of the interest on the Credit Facilities to a fixed interest rate through July 2017. As of January 2, 2016, the combined interest rate on the Credit Facilities and the interest rate swap was 2.264%. The impact of the interest rate swap was factored into the calculation of the future interest payments on our long-term debt obligations through July 2017.

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

(4) 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.

(5) Other long-term obligations represent estimated contingent consideration payments due in connection with the acquisition of Energy Micro and software license obligations.

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 $3.6 million for unrecognized tax benefits is not included in the table above. See Note 17, *Income Taxes,* to the Consolidated Financial Statements for additional information.

Off-Balance Sheet Arrangements

As of January 2, 2016, we had no significant off-balance sheet arrangements.

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 manufacturing 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 Statements 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 awards 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 13, *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 record a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. In assessing the need for a valuation allowance, we are required to estimate the amount of expected future taxable income. Judgment is inherent in this process and differences between the estimated and actual taxable income could result in a material impact on our Consolidated Financial Statements.

We recognize liabilities for uncertain tax positions based on a two-step process. The first step requires us to determine whether 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 November 2015, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Update (ASU) No. 2015-17,*Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. The amendments in this update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This ASU is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted as of the beginning of an interim or annual reporting period. We early adopted this ASU on a prospective basis in the fourth quarter of fiscal 2015. Prior periods were not retrospectively adjusted.

In September 2015, the FASB issued FASB ASU No. 2015-16,*Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments.* The amendments in this update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period with a corresponding adjustment to goodwill in the reporting period in which the adjustment amounts are determined. The effect on earnings of changes in depreciation, amortization or other income effects, if any, as a result of the change to the provisional amounts will be recorded in the same period's financial statements, calculated as if the accounting had been completed at the acquisition date. This ASU is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments in this update should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this update with earlier application permitted for financial statements that have not been issued. We early adopted this ASU in the fourth quarter of fiscal 2015. The adoption did not have a material impact on our financial statements.

In July 2015, the FASB issued FASB ASU No. 2015-11,*Inventory (Topic 330): Simplifying the Measurement of Inventory*. The amendments in this update require inventory to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This ASU is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendments in this update should be applied prospectively with earlier application permitted. We do not expect that the adoption of this ASU will have a material impact on our financial statements.

In April 2015, the FASB issued FASB ASU No. 2015-03,*Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. ASU 2015-03 is to be applied retrospectively and represents a change in accounting principle. In August 2015, the FASB issued FASB ASU No. 2015-15, *Interest—Imputation of Interest (Subtopic 835-30): Presentation and Subsequent*

Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. ASU 2015-15 clarified the presentation and subsequent measurement of debt issuance costs related to line-of-credit arrangements. Such costs may be presented in the balance sheet as an asset and subsequently amortized ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. ASU 2015-03 and ASU 2015-15 are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. Earlier adoption is permitted for financial statements that have not been previously issued. We do not expect that the adoption of ASU 2015-03 and ASU 2015-15 will have a material impact on our financial statements.

In May 2014, the FASB issued FASB ASU No. 2014-09,*Revenue from Contracts with Customers (Topic 606),* which supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides a five-step process to achieve that core principle. ASU 2014-09 requires disclosures enabling users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. In August 2015, the FASB issued FASB ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which deferred the effective date of ASU 2014-09 by one year. ASU 2014-09 is now effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, using one of two retrospective application methods. Early application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We are currently evaluating the effect that the adoption of ASU 2014-09 and ASU 2015-14 will have 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 January 2, 2016 and January 3, 2015 yielded less than 100 basis points. A decline in yield to zero basis points on our investment portfolio holdings as of January 2, 2016 and January 3, 2015 would decrease our annual interest income by approximately \$0.9 million and \$1.0 million, respectively. We believe that our investment policy, which defines the duration, concentration, and minimum credit quality of the allowable investments, meets our investment objectives.

Interest Expense

We are exposed to interest rate fluctuations in the normal course of our business, including through our Credit Facilities. The interest payments on the Credit Facilities consist of a variable-rate of interest and an applicable margin. We have entered into an interest rate swap agreement with an original notional value of \$100 million that, effectively, converted the variable-rate interest payments to fixed-rate interest payments through July 2017.