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

The following discussion of our financial condition and results of operations should be read in conjunction with the financial statements and related notes included in this Annual Report on Form 10-K. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties including those discussed under Part I, Item 1A, "Risk Factors." These risks and uncertainties may cause actual results to differ materially from those discussed in the forward-looking statements.

We are a fabless semiconductor provider of high-performance application-specific standard products. Our core strength of expertise is the development of complex SoC and SiP devices, leveraging our extensive technology portfolio of intellectual property in the areas of analog, mixed-signal, digital signal processing, and embedded and standalone integrated circuits. The majority of our product portfolio leverages the ARM technology portfolio. We also develop platforms that we define as integrated hardware along with software that incorporates digital computing technologies designed and configured to provide an optimized computing solution. Our broad product portfolio includes devices for data storage, enterprise-class Ethernet data switching, Ethernet PHY, mobile handsets, connectivity, IoT devices and other consumer electronics. Our products serve diverse applications used in carrier, metropolitan, enterprise and PC-client data communications and storage systems. Additionally, we serve the consumer electronics market for the convergence of voice, video and data applications. As a fabless integrated circuit company, we rely on independent, third-party contractors to perform manufacturing, assembly and test functions. This approach allows us to focus on designing, developing and marketing our products, and significantly reduces the amount of capital we need to invest in manufacturing products.

Overview

In fiscal 2015, we experienced growth in net revenue for the second consecutive year. Net revenue in fiscal 2015 reached a record high of $3.7 billion and was 9% higher than net revenue of $3.4 billion in fiscal 2014. The growth was led by a 28% increase in revenue from products for the mobile and wireless end markets, particularly in the first half of fiscal 2015, together with stable year over year growth in the storage market. Moreover, our operating income in fiscal 2015 accelerated more rapidly than revenue as we were able to effectively control our operating expenses. Going into fiscal 2016, we expect revenue growth to be driven by areas such as mobile handsets, tablets, connectivity and smart home devices along with a continued focus on operational execution.

- In the mobile market, competition and pricing remain fierce, and negatively affected our operating results in the second half of the year. However, we continue to make steady progress with our LTE solutions. Our focus was initially on the LTE market in China where we saw more OEM partners start new 4G LTE smartphone, tablet and mobile broadband device projects with our chipsets. We also expanded into multiple geographies and saw good expansion of our 4G LTE products outside of China with a leading OEM launching our LTE solution in the European market. Last fall, Samsung launched the new Galaxy Mini 4G smartphone and its multi-mode LTE mobile hotspot. We also introduced two new products, our quad-core 64-bit ARMANDA Mobile PXA 1908 platform and our octa-core 64-bit ARMADA Mobile PXA 1936. We expect many of our tier-1 customers in Korea and China to introduce smartphones using these solutions. Despite the positive steps, the ramp of open market smartphones as opposed to the initial "carrier driven" models was faster than anticipated. We are making solid progress in our turnkey LTE platforms including board layout and software to target the open market in China. With the expansion of our LTE solutions to markets outside of China, we will subsequently attempt to bring our turnkey platforms to those markets as well.
- In the wireless connectivity market, we recently introduced the 4x4 11ac Wave-2 Wi-Fi and SoC platform for enterprise access point and smart home gateway solutions. Our 4x4 11ac devices have been growing our market share in carrier grade access point, supporting tier-1 customers like Cisco Systems, Inc. We believe we are well positioned to further expand into high-performance 4x4 MIMO product categories in both retail and service provider gateways with more devices in the pipeline for launch next year. Our wireless connectivity solutions are being used in game consoles at both

Microsoft and Sony. We are seeing new opportunities for our connectivity solutions across multiple market segments. Our Wi-Fi and Zigbee devices are gaining strong adoption in the fast-growing IoT end market. Our EZ-Connect wireless microcontrollers have been well received and we have a strong design pipeline across a broad range of applications including lighting, appliances, home automation and other smart home and commercial IoT applications across China and North American regions. For example, Xiaomi launched a line of smart home products in late fall of 2014 based on our wireless microcontrollers. We are also an early partner in Apple's HomeKit and we have several tier-1 customers designing HomeKit products using our EZ-Connect microcontrollers. In the video business, we saw strong volume shipments into Google Chromecast in European, South American and Asian markets. On the service provider side of the video business, a leading service provider in Korea launched their 4K platform using our ARMADA 1500 device and we expect several other service providers to start shipping their own version of Internet Protocol television and over-the-top hybrid set-top boxes using our ARMADA 1500 family of video SoC in the near future. For example, one of our leading service providers in France recently launched their set-top box based on the ARMDA 1500 PRO SoC.

- In the storage market, we continued to execute well and the overall industry appears to have stabilized. Our HDD market remains strong as we continue to experience strong demand for our 500 gigabyte per platter products. We continued to see increased demand for our products used in enterprise drives at a top North America-based HDD customer. We are also continuing to accelerate our investment in next generation HDD technologies. Within the SSD market, our strategy of partnering with top tier OEMs has resulted in excellent traction for our advanced SSD solutions. Earlier this fiscal year, we announced multiple new products including our 5th generation SATA product with LDPC technology to support 3D NAND, as well as 15 nanometer 2D NAND, and a low-cost PCIe-based SSD solution priced similar to our SATA solution but with much higher performance. We continue to gain traction with our SATA SSD controller and are starting to see increased adoption of our PCIe SSD controller. We are also on track to introduce multiple embedded SSD products for the mobile market and expect to generate revenues from these products in fiscal 2016. Despite the drop in market share of one of our major customers, we are working to solidify our leadership position in the market over the next few years.
- In the networking market, design win momentum continues with new programs that cover low-end fixed solutions to high-end modular platforms in the enterprise and service provider markets, driving new opportunities with our latest family of network processing solutions. We continue to gain traction with our recently introduced Questflo product line of network search engines that broadens our growing networking product portfolio. Today's traditional TCAM-based solutions are unable to address future scaling requirements and multiple customers are actively engaged with us for next generation solutions. Our SRAM-based Questflo products are targeted for carrier customers and increase capacity using less power delivering better performance-power metrics compared to competitors.

Our cost of goods sold as a percentage of net revenue for fiscal 2015 was higher compared to fiscal 2014. As we expand our presence in the mobile and wireless end markets, we expect our gross margin to face downward pressure, as these end markets generally have lower average gross margins than the rest of our business. However, we expect this growth will result in improvement to total gross margin dollars and operating profit. In addition, we are focused on efforts to improve both aspects of our gross profit, including through cost improvement and pricing.

We believe our financial position is strong and we remain committed to deliver shareholder value through our share repurchase and dividend programs.

- Our cash, cash equivalents and short-term investments were $2.5 billion at January 31, 2015.
- We generated cash flow from operations of $728.9 million during fiscal 2015.

- We paid cash dividends of $0.24 per share for a total of $122.8 million in fiscal 2015 and we recently announced a dividend of $0.06 per share to be paid in the first quarter of fiscal 2016.
- We repurchased 5.1 million of our common shares for $65.0 million in fiscal 2015.

We are currently involved in a patent litigation action with CMU (See “Risk Factors” under Part I, Item 1A of this Annual Report on Form 10-K and “Note 10 — Commitments and Contingencies” in the Notes to the Consolidated Financial Statements for a further discussion of the risks associated with this matter and other patent litigation matters). A jury has awarded past damages of $1.17 billion, and the Court calculated damages, including enhancement, to total approximately $1.54 billion, and held that, under its decision, CMU is entitled to post judgment interest and an ongoing royalty. Based on the royalty rate assessed by the District Court, such additional royalties for the period of time commencing on the date ordered by the District Court, January 15, 2013, through January 31, 2015 could be as much as $400 million. On May 7, 2014, the District Court entered final judgment and on May 14, 2014, we filed a notice of appeal to the U.S. Court of Appeals for the Federal Circuit in Washington, D.C., which is set for oral argument in April 2015. We have secured certain surety bonds for the duration of the appeal to stay execution of judgment pending the appeal. See “Note 10 — Commitments and Contingencies — Surety Bonds” in the Notes to the Consolidated Financial Statements for a further discussion of these surety bonds. We strongly believe that we do not infringe on the methods described in the CMU patents and that our products use our own internally developed patented read channel technology.

A significant number of our products are being incorporated into consumer electronics products, including gaming devices and personal computers, which are subject to significant seasonality and fluctuations in demand. Holiday and back to school buying trends may at times negatively impact our results in the first and fourth quarter, and positively impact our results in the second and third quarter of our fiscal years. In addition, consumer electronics sales are heavily dependent on new product launch timelines and product refreshes. For example, our sales of wireless connectivity products may increase significantly during a period when one of our consumers launches a new gaming console, and these sales may taper significantly after the initial launch period.

Historically, a relatively small number of customers have accounted for a significant portion of our net revenue. Net revenue from one customer was 20%, 24% and 24% for fiscal 2015, 2014 and 2013, respectively. Net revenue from a second customer was 13%, 12% and 10% for fiscal 2015, 2014 and 2013, respectively. In fiscal 2013, net revenue from a third customer was 10%. We had net revenue from one distributor representing 11% and 11% for fiscal 2015 and 2013, respectively. No distributors accounted for 10% or greater of total net revenue in fiscal 2014.

Most of our sales are made to customers located outside of the United States, primarily in Asia. Sales to customers in Asia represented approximately 96%, 95% and 90% of our net revenue for fiscal 2015, 2014 and 2013, respectively. Because many manufacturers and manufacturing subcontractors of our customers are located in Asia, we expect that most of our net revenue will continue to be represented by sales to our customers in that region. Substantially all of our sales are denominated in U.S. dollars.

A relatively large portion of our sales have historically been made on the basis of purchase orders rather than long-term agreements. In addition, the sales cycle for our products is long, which may cause us to experience a delay between the time we incur expenses and the time revenue is generated from these expenditures. We anticipate that the rate of new orders may vary significantly from quarter to quarter. Consequently, if anticipated sales and shipments in any quarter do not occur when expected, expenses and inventory levels could be disproportionately high, and our operating results for that quarter and future quarters may be adversely affected.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States (“GAAP”) requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to performance-based compensation, revenue recognition, provisions for sales returns and allowances, inventory excess and obsolescence, investment fair values, goodwill and other intangible assets, restructuring, income taxes, litigation and other contingencies. In addition, we use assumptions when employing the Monte Carlo simulation and Black-Scholes valuation models to calculate the fair value of share-based awards granted. We base our estimates of the carrying value of certain assets and liabilities on historical experience and on various other assumptions that are believed to be reasonable under the circumstances when these carrying values are not readily available from other sources. Actual results could differ from these estimates, and such differences could affect the results of operations reported in future periods. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition. We recognize revenue when there is persuasive evidence of an arrangement, delivery has occurred, the fee is fixed or determinable, and collection is reasonably assured.

Product revenue is generally recognized upon shipment of product to customers, net of accruals for estimated sales returns and rebates. However, some of our sales are made through distributors under agreements allowing for price protection, shipped from stock pricing adjustment rights, and limited rights of stock rotation on product unsold by the distributors. Although title passes to the distributor upon shipment terms and payment by our distributors is not contingent on resale of the product, product revenue on sales made through distributors with price protection, shipped from stock pricing adjustment rights and stock rotation rights are deferred until the distributors sell the product to end customers. Deferred revenue less the related cost of the inventories is reported as deferred income. We do not believe that there is any significant exposure related to impairment of deferred cost of sales, as our historical returns have been minimal and inventory turnover for our distributors generally ranges from 60 to 90 days. Our sales to direct customers are made primarily pursuant to standard purchase orders for delivery of products.

A portion of our net revenue is derived from sales through third-party logistics providers, who maintain warehouses in close proximity to our customer’s facilities. Revenue from sales through these third-party logistics providers is not recognized until the product is pulled from stock by the customer.

The provision for estimated sales returns and allowances on product sales is recorded in the same period the related revenues are recorded. These estimates are based on historical sales returns, analysis of credit memo data and other known factors. In addition, payments to our customers, in cases where products with potential quality issues are not returned to us and the related quality issue can otherwise not be verified, or where the amount of the payment is not sufficiently supported by the fair value of the quality issue, may be recorded as a reduction of revenue. Actual returns could differ from these estimates. We account for rebates by recording reductions to revenue in the same period that the related revenue is recorded. The amount of these reductions is based upon the terms agreed to with the customers.

Share-based Compensation. We measure our share-based compensation at the grant date, based on the fair value of the award, and is recognized as expense over the requisite service period. We amortize share-based compensation expense for time-based and market-based awards under the straight-line attribution method over the vesting period, which is generally four years for annual grants to employees and five years for new hire grants. Performance-based awards are amortized using the accelerated method.

We estimate the fair value of time-based stock option awards on the date of grant using the Black Scholes option-pricing model. The fair value of market-based option awards is estimated on the date of grant using a Monte Carlo simulation model. The value of the portion of the awards that is ultimately expected to vest is recognized as expense over the requisite service periods. The Black-Scholes and Monte Carlo models incorporate various highly subjective assumptions including expected term of awards, expected future stock price volatility and expected forfeiture rates.

In developing estimates used to calculate assumptions, we establish the expected term for employee options, as well as expected forfeiture rates, based on the historical settlement experience and after giving consideration to vesting schedules. Assumptions for stock option exercises and pre-vesting terminations of stock options were stratified by employee groups with sufficiently distinct behavior patterns. Expected volatility was developed based on an equally weighted combination of historical stock price volatility and implied volatility derived from traded options on our stock in the marketplace. The expected dividend yield is calculated by dividing annualized dividend payments by the closing stock price on the grant date of the option.

Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. Share-based compensation expense is recorded net of estimated forfeitures such that expense is recorded only for those share-based awards that are expected to vest. Previously recognized expense is reversed for the portion of awards forfeited prior to vesting as and when forfeitures occurred.

The fair value of each restricted stock unit is estimated based on the market price of the Company's common shares on the date of grant less the expected dividend yield.

In addition, for both stock options and restricted stock units, we are required to estimate forfeiture rates, and true up these forfeiture rates when actual results are different from our estimates. Assumptions for forfeitures are stratified by employee groups with sufficiently distinct behavior patterns. Changes in the estimated forfeiture rate can have a significant effect on reported share-based compensation expense, as the effect of adjusting the rate for all expense amortization is recognized in the period the forfeiture estimate is changed. If the actual forfeiture rate is higher than the estimated forfeiture rate, then an adjustment will be made to increase the estimated forfeiture rate, which will result in a decrease to the expense recognized in the financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, then an adjustment will be made to lower the estimated forfeiture rate, which will result in an increase to the expense recognized in the financial statements. The expense we recognize in future periods could be affected by changes in the estimated forfeiture rate and may differ significantly from amounts recognized in the current period and/or our forecasts.

Additionally, for certain of our performance-based awards, we must make subjective assumptions regarding the likelihood that the related performance metrics will be met. These assumptions are based on various revenue and operating performance criteria. Changes in our actual performance could cause a significant adjustment in future periods for these performance-based awards.

Accounting for Income Taxes. We estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual tax exposure together with assessing temporary differences resulting from the differing treatment of certain items for tax return and financial statement purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheets.

We recognize income taxes using an asset and liability approach. This approach requires the recognition of taxes payable or refundable for the current year, and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our consolidated financial statements or tax returns. The measurement of current and deferred taxes is based on provisions of the enacted tax law and the effects of future changes in tax laws or rates are not anticipated.

Evaluating the need for an amount of a valuation allowance for deferred tax assets often requires judgment and analysis of all the positive and negative evidence available to determine whether all or some portion of the deferred tax assets will not be realized. A valuation allowance must be established for deferred tax assets when it is more likely than not that they will not be realized. Based on the available evidence and judgment, we have determined that it is more likely than not that our U.S. research credits, which we earn in excess of our current year tax liabilities, and certain acquired net operating losses will not be realized. Therefore, we have provided a full valuation allowance against these credits and a portion against the net operating losses. If there is a change in our ability to realize our deferred tax assets, then our tax provision may decrease in the period in which we determine that realization is more likely than not.

As a multinational corporation, we conduct our business in many countries and are subject to taxation in many jurisdictions. The taxation of our business is subject to the application of various and sometimes conflicting tax laws and regulations as well as multinational tax conventions. Our effective tax rate is highly dependent upon the geographic distribution of our worldwide earnings or losses, the tax regulations and tax holidays in each geographic region, the availability of tax credits and carryforwards, and the effectiveness of our tax planning strategies. The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws themselves are subject to change as a result of changes in fiscal policy, changes in legislation, and the evolution of regulations and court rulings. Consequently, taxing authorities may impose tax assessments or judgments against us that could materially impact our tax liability and/or our effective income tax rate.

We are subject to income tax audits by the respective tax authorities in all of the jurisdictions in which we operate. We recognize the effect of income tax positions only if these positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is more than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. We record interest and penalties related to unrecognized tax benefits in income tax expense. The calculation of our tax liabilities involves the inherent uncertainty associated with the application of GAAP and complex tax laws. We believe we have adequately provided for in our financial statements additional taxes that we estimate may be required to be paid as a result of such examinations. While we believe that we have adequately provided for all tax positions, amounts asserted by tax authorities could be greater or less than our accrued position. These tax liabilities, including the interest and penalties, are released pursuant to a settlement with tax authorities, completion of audit or expiration of various statutes of limitation. The material jurisdictions in which we may be subject to potential examination by tax authorities throughout the world include China, Israel, Singapore, Switzerland and the United States.

The recognition and measurement of current taxes payable or refundable, and deferred tax assets and liabilities require that we make certain estimates and judgments. Changes to these estimates or a change in judgment may have a material impact on our tax provision in a future period.

Inventories. We value our inventory at the lower of cost or market, cost being determined under the first-in, first-out method. We regularly review inventory quantities on hand and record a reduction to the total carrying value of our inventory for any difference between cost and estimated market value of inventory that is determined to be excess, obsolete or unsellable inventory based primarily on our estimated forecast of product demand and production requirements. The estimate of future demand is compared to our inventory levels, including open purchase commitments, to determine the amount, if any, of obsolete or excess inventory. Demand for our products can fluctuate significantly from period to period. A significant decrease in demand could result in an increase in the amount of excess inventory on hand. In addition, our industry is characterized by rapid technological change, frequent new product development and rapid product obsolescence that could result in an increase in the amount of obsolete inventory quantities on hand. Additionally, our estimates of future product demand may prove to be inaccurate, in which case we may have understated or overstated the reduction to the total carrying value of our inventory for excess and obsolete inventory. In the future, if our inventory is determined to be overvalued, we would be required to recognize such costs in our cost of goods sold at the time of such determination. Likewise, if our inventory is determined to be undervalued, we may have over-reported our cost of goods sold in previous periods and would be required to recognize additional gross margin at the time the related inventory is sold. Therefore, although we make every effort to ensure the accuracy of our forecasts of future product demand, any significant unanticipated changes in demand or technological developments could have a significant impact on the value of our inventory and our results of operations.

Long-lived Assets and Intangible Assets. We assess the impairment of long-lived assets and intangible assets whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Circumstances which could trigger a review include, but are not limited to the following:

- significant decreases in the market price of the asset;
- significant adverse changes in the business climate or legal factors;
- accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of the asset;
- current period cash flow or operating losses combined with a history of losses or a forecast of continuing losses associated with the use of the asset; and
- current expectation that the asset will more likely than not be sold or disposed of significantly before the end of its estimated useful life.

Whenever events or changes in circumstances suggest that the carrying amount of long-lived assets and intangible assets may not be recoverable, we estimate the future cash flows expected to be generated by the asset from its use or eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of those assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets. Significant management judgment is required in the forecasts of future operating results that are used in the discounted cash flow method of valuation.

As of January 31, 2015, we had a total of $30.7 million in acquired intangible assets. In connection with our IPR&D, we performed a qualitative assessment in 2015 to determine whether it was more likely than not that our IPR&D was impaired. Based on our assessment we recorded a charge of $3.4 million in fiscal 2015 to write off IPR&D related to an abandoned project. In fiscal 2014, we recorded a charge of $8.1 million for the impairment of an acquired intangible asset as a result of our annual impairment evaluation.

Goodwill. We evaluate goodwill for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Factors we consider important which could trigger a goodwill impairment review include;

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner of our use of the acquired assets or the strategy for our overall business;
- significant negative industry or economic trends;
- a significant decline in our stock price for a sustained period; and
- a significant change in our market capitalization relative to our net book value.

When performing our assessment, we include a control premium, in addition to our fair value to reflect the full value and amount that a buyer would be willing to pay for the company. Since our inception, we have not recognized any impairment of goodwill.

Litigation Costs. From time to time, we are involved in legal actions arising in the ordinary course of business. There can be no assurance these actions or other third-party assertions will be resolved without costly litigation, in a manner that does not adversely impact our financial position, results of operations or cash flows or without requiring royalty payments in the future, which may adversely impact gross margins. We are aggressively defending these litigation matters and believe no material adverse outcome will result. We record a liability when it is probable that a loss has been incurred and the amount can be reasonably estimated. In determining the probability of a loss and consequently, determining a reasonable estimate, management is required to use significant judgment. Given the uncertainties associated with any litigation, the actual outcome can be different than our estimates and could adversely affect our results of operations, financial position and cash flows.

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Results of Operations

The following table sets forth information derived from our consolidated statements of operations expressed as a percentage of net revenue:

	Year Ended		
	January 31, 2015	February 1, 2014	February 2, 2013
Net revenue	100.0%	100.0%	100.0%
Operating costs and expenses:			
Cost of goods sold	49.7	48.9	47.1
Research and development	31.4	34.0	33.4
Selling and marketing	3.9	4.5	5.1
General and administrative	3.5	3.1	3.4
Amortization and write-off of acquired intangible assets	0.5	1.3	1.7
Total operating costs and expenses	89.0	91.8	90.7
Operating income	11.0	8.2	9.3
Interest and other income, net	0.6	0.7	0.5
Income before income taxes	11.6	8.9	9.8
Provision (benefit) for income taxes	(0.1)	(0.3)	0.1
Net income	11.7%	9.2%	9.7%

Years Ended January 31, 2015 and February 1, 2014

Net Revenue

	Year Ended		
	January 31, 2015	February 1, 2014	% Change in 2015
	(in thousands, except percentage)		
Net revenue	$3,706,963	$3,404,400	8.9%

Net revenue is gross revenue, net of accruals for estimated sales returns and rebates. Our net revenue for fiscal 2015 increased by $302.6 million compared to net revenue for fiscal 2014. The increase was led by sales of our mobile and wireless products, particularly in the first half of fiscal 2015, where we saw strong growth from multiple customers who launched their 4G LTE smartphones based on our solutions. In the storage market, we saw higher HDD revenue, which was mostly driven by continued growth for our 500 gigabyte per platter products and increased demand for our products used in enterprise drives at a top North America based HDD customer. Our networking revenue was up 1% in fiscal 2015 over fiscal 2014 due higher demand for enterprise switches and routers.

In the first quarter of fiscal 2016, we expect net revenue to decline, driven by a softening of demand in the PC end market, normal seasonality and slightly higher inventories in the supply chain at the end of the fourth quarter of fiscal 2015.

Cost of Goods Sold

	Year Ended		
	January 31, 2015	February 1, 2014	% Change in 2015
	(in thousands, except percentages)		
Cost of goods sold	$1,843,706	$1,663,730	10.8%
% of net revenue	49.7%	48.9%	

Cost of goods sold as a percentage of net revenue was higher in fiscal 2015 due to a shift in the mix of our revenue, particularly in the first half of fiscal 2015, towards our mobile and wireless products which have a higher average cost of goods sold as a percentage of revenue. In addition, we also had higher inventory write downs and increased royalty expense in fiscal 2015 compared to fiscal 2014. Our cost of goods sold as a percentage of net revenue may fluctuate in future periods due to, among other things, changes in the mix of products sold; the timing of production ramps of new products; increased pricing pressures from our customers and competitors, particularly in the consumer product markets that we are targeting; charges for obsolete or potentially excess inventory; changes in the costs charged by our foundry; assembly and test subcontractors; product warranty costs; changes in commodity prices such as gold; and the margin profiles of our new product introductions.

We currently expect that cost of goods sold as a percentage of net revenue in the first quarter of fiscal 2016 will be slightly higher than the amount in the fourth quarter of fiscal 2015.

Share-Based Compensation Expense

	Year Ended	
	January 31, 2015	February 1, 2014
	(in thousands)	
Cost of goods sold	$ 7,972	$ 8,863
Research and development	94,432	109,432
Selling and marketing	11,469	13,940
General and administrative	23,373	23,638
	$ 137,246	$ 155,873

Share-based compensation expense decreased by $18.6 million in fiscal 2015 compared to fiscal 2014. The decrease was primarily due to lower expense related to the employee stock purchase plan. In addition, the reversal of previously recognized expense associated with unvested equity awards that were cancelled as a result of the resignation in February 2014 of our former Chief Technology Officer reduced the fiscal 2015 share-based compensation expense. These decreases were partially offset by new grants of performance-based awards in fiscal 2015 to members of senior management and in April 2014 to our executive officers.

Research and Development

	Year Ended		
	January 31, 2015	February 1, 2014	% Change in 2015
	(in thousands, except percentages)		
Research and development	$1,164,059	$1,156,885	0.6%
% of net revenue	31.4%	34.0%	

Research and development expense increased by $7.2 million in fiscal 2015 compared to fiscal 2014. The increase was primarily attributable to $27.5 million of higher personnel-related costs primarily associated with an increase in incentive compensation expense that were partially offset by lower share-based compensation. In addition, we had $3.8 million of higher depreciation and amortization expenses. These increases were offset by $26.5 million of lower costs primarily for non-recurring engineering services due to higher reimbursement from our customers combined with efforts to closely monitor research and development spending to improve efficiencies. In addition, there was $5.2 million of restructuring and other exit-related costs included in research and development expense in fiscal 2015 compared to $2.9 million in fiscal 2014, which is further described in the restructuring section of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Selling and Marketing

	Year Ended		
	January 31, 2015	February 1, 2014	% Change in 2015
	(in thousands, except percentages)		
Selling and marketing	$ 143,952	$ 152,698	(5.7)%
% of net revenue	3.9%	4.5%	

Selling and marketing expense decreased by $8.7 million in fiscal 2015 compared to fiscal 2014. The decrease was primarily attributable to lower personnel-related costs of $9.7 million due to lower headcount, which was partially offset by slightly higher marketing advertisement activities.

General and Administrative

	Year Ended		
	January 31, 2015	February 1, 2014	% Change in 2015
	(in thousands, except percentages)		
General and administrative	$ 130,030	$ 106,471	22.1%
% of net revenue	3.5%	3.1%	

General and administrative expense increased by $23.6 million in fiscal 2015 compared to fiscal 2014. The increase was primarily attributable to higher legal expenses of $8.3 million for ongoing litigation matters and costs of $7.2 million associated with the surety bond to appeal the CMU judgment. Higher incentive compensation expenses of $5.0 million in fiscal 2015 also contributed to the increase in general and administrative expense. In addition, there were $5.2 million of restructuring and other exit-related costs included in general and administrative expense in fiscal 2015 compared to $1.1 million in fiscal 2014.

We expect general and administrative expenses for the first quarter of fiscal 2016 to increase compared to the fourth quarter of fiscal 2015 due to a cash payment to our Chief Executive Officer. See "Note 15 — Subsequent Event" in our Notes to the Consolidated Financial Statements set forth in Part II, Item 8 of the Annual Report on Form 10-K for further information.

Amortization and Write-Off of Acquired Intangible Assets

	Year Ended		
	January 31, 2015	February 1, 2014	% Change in 2015
	(in thousands, except percentages)		
Amortization and write-off of acquired intangible assets	$ 16,397	$ 43,925	(62.7)%
% of net revenue	0.5%	1.3%	

Amortization and write-off of acquired intangible assets decreased by $27.5 million in fiscal 2015 compared to fiscal 2014. The decrease was due to a reduction in amortization expense as certain intangible assets became fully amortized. In addition, fiscal 2015 included a $3.4 million write off of IPR&D upon our decision to discontinue the related project compared to a write-off of $8.1 million for the impairment of an acquired intangible asset in fiscal 2014.

Restructuring

	Year Ended	
	January 31, 2015	February 1, 2014
Research and development	$ 5,249	$ 2,886
Selling and marketing	—	795
General and administrative	5,189	1,051
Write-off of acquired intangible assets	3,386	—
	$ 13,824	$ 4,732

We recorded a total $13.8 million restructuring charge in fiscal 2015, which included severance costs of $5.2 million and other exit-related costs of $2.0 million, primarily associated with facility closures. In addition, the charge included $3.4 million to write off an acquired intangible asset and a $3.2 million loss related to a lease agreement. The fiscal 2014 restructuring charge primarily related to the closure of two sites for a total cost of $4.2 million for severance and other exit-related costs. See "Note 8 — Restructuring" in the Notes to the Consolidated Financial Statements for a more complete discussion of these restructuring charges.

Interest and Other Income, net

	Year Ended		
	January 31, 2015	February 1, 2014	% Change in 2015
	(in thousands, except percentages)		
Interest and other income, net	$ 23,334	$ 25,566	(8.7)%
% of net revenue	0.6%	0.7%	

Interest and other income, net, decreased by $2.2 million in fiscal 2015 compared to fiscal 2014. The decrease was primarily due to the recognition of foreign currency gains, which were $6.9 million lower in fiscal 2015 compared to fiscal 2014. Although the U.S. dollar strengthened over certain foreign currencies in which we had exposures during fiscal 2015, most of our foreign currency gains arose from the revaluation of our foreign currency denominated tax liabilities that were lower in fiscal 2015 compared to fiscal 2014. The decrease in foreign currency gains was partially offset by an increase in interest income from higher average cash and investment balances combined with an increase in other income. Other income included an $8.8 million gain from the sale of an investment in fiscal 2015 compared to a $7.0 million gain from the sale of a business in fiscal 2014.

Benefit for Income Taxes

	Year Ended		
	January 31, 2015	February 1, 2014	% Change in 2015
	(in thousands, except percentages)		
Benefit for income taxes	$ (3,193)	$ (9,063)	(64.8)%
% of net revenue	(0.1)%	(0.3)%	

We had income tax benefits of 0.7% in fiscal 2015 compared to 3.0% in fiscal 2014. The income tax benefit for fiscal 2015 included the current income tax liability of $17.4 million, plus a $7.4 million increase in current unrecognized tax benefits in non-U.S. jurisdictions. These charges were offset by a reduction in unrecognized tax benefits that arose from the release of $16.4 million due to the expiration of statutes of limitation and a $12.9 million increase in net deferred tax assets. The increase in net deferred tax assets was mostly due to an increase in the Singapore deferred tax assets since we re-negotiated with the Singapore government and in fiscal 2015, they extended the DEI until June 2019. See "Note 9 – Income Taxes" in our Notes to the Consolidated Financial Statements set forth in Part II, Item 8 of the Annual Report on Form 10-K for further information.

Years Ended February 1, 2014 and February 2, 2013

Net Revenue

	Year Ended		
	February 1, 2014	February 2, 2013	% Change in 2014
	(in thousands, except percentage)		
Net revenue	$3,404,400	$3,168,630	7.4%

The increase in net revenue of 235.8 million for fiscal 2014 compared to fiscal 2013 was driven by an increase in sales of our storage products, as we continued to see growth for our 500-gigabyte-per-platter products and increased demand for enterprise drives at a top North America based HDD customer. In addition, revenue for SSD controllers increased significantly compared to the prior year, as these products continued to gain traction and popularity. We experienced growth in revenue for our mobile and wireless products in the second half of fiscal 2014 due to successful launches of our new multi-core 3G mobile devices with key OEM's into mobile handsets and tablets. In addition, we saw increased demand for our wireless products driven by the holiday ramp up of new gaming platforms at two of our customers and the launch of new programs such as the Google Chromecast. However, mobile and wireless revenue was flat year over year as fiscal 2014 included significantly higher revenue from a North American handset customer. The increase in net revenue for fiscal 2014 was partially offset by slightly lower revenue for our networking products, primarily due to a weaker overall market and its effect on our networking customers.

Cost of Goods Sold

	Year Ended		
	February 1, 2014	February 2, 2013	% Change in 2014
	(in thousands, except percentages)		
Cost of goods sold	$1,663,730	$1,493,497	11.4%
% of net revenue	48.9%	47.1%	

Cost of goods sold as a percentage of net revenue was higher in fiscal 2014. Although we continued to benefit from lower commodity costs driven by our replacement of gold in our products with copper, manufacturing costs were higher in fiscal 2014 due to increased royalty expense and the ramp up of new product designs in consumer-oriented products.

Share-Based Compensation Expense

	Year Ended	
	February 1, 2014	February 2, 2013
	(in thousands)	
Cost of goods sold	$ 8,863	$ 8,142
Research and development	109,432	87,149
Selling and marketing	13,940	13,278
General and administrative	23,638	18,711
	$ 155,873	$ 127,280

Share-based compensation expense increased by $28.6 million in fiscal 2014 compared to fiscal 2013. These increases were primarily due to increased headcount in fiscal 2014, combined with higher expense related to the employee stock purchase plan. The offering price of the employee stock purchase plan was reset in June 2012 and also in December 2012 due to the decline in our stock price. In addition, equity awards granted in fiscal 2014 contained shorter vesting periods, which accelerated the amount of share-based compensation expense.

Restructuring

	Year Ended February 1, 2014	Year Ended February 2, 2013
	(in thousands)	
Research and development	$ 2,886	$ 47
Selling and marketing	795	(3)
General and administrative	1,051	1,213
	$ 4,732	$ 1,257

We recorded a $4.2 million charge primarily related to the closure of two sites in fiscal 2014. This amount included $2.8 million of severance costs, $1.3 million for other exit-related costs in connection with vacating three facilities and $0.1 million for the write off of equipment. All activities related to the closure of the two sites were substantially completed by the end of the fiscal year.

During fiscal 2014, we also continued to make payments and incur ongoing operating expenses related to vacated facilities under previous restructure actions.

Research and Development

	Year Ended February 1, 2014	Year Ended February 2, 2013	% Change 2014
	(in thousands, except percentages)		
Research and development	$1,156,885	$1,057,445	9.4%
% of net revenue	34.0%	33.4%	

Research and development expense increased by $99.4 million in fiscal 2014 compared to fiscal 2013, primarily attributable to higher personnel-related costs as a result of increased headcount in fiscal 2014 to support new designs, higher share-based compensation and higher average employee compensation. The increase in expense also reflected higher computer-aided design tool costs, and higher depreciation and amortization costs as we continued to invest in the development of innovative solutions.

Selling and Marketing

	Year Ended February 1, 2014	Year Ended February 2, 2013	% Change in 2014
	(in thousands, except percentages)		
Selling and marketing	$ 152,698	$ 161,817	(5.6)%
% of net revenue	4.5%	5.1%	

Selling and marketing expense decreased by $9.1 million in fiscal 2014 compared to fiscal 2013. The decrease was primarily attributable to lower costs for marketing communication activities as a result of efforts to control discretionary spending and lower personnel-related costs caused by a decrease in headcount in fiscal 2014.

General and Administrative

	Year Ended February 1, 2014	Year Ended February 2, 2013	% Change in 2014
	(in thousands, except percentages)		
General and administrative	$ 106,471	$ 108,514	(1.9)%
% of net revenue	3.1%	3.4%	

General and administrative expense decreased by $2.0 million in fiscal 2014 compared to fiscal 2013. The decrease was primarily attributable to lower legal costs for ongoing litigation matters, partially offset by higher share-based compensation.

Amortization and Write-Off of Acquired Intangible Assets

	Year Ended		
	February 1, 2014	February 2, 2013	% Change in 2014
	(in thousands, except percentages)		
Amortization and write-off of acquired intangible assets	$ 43,925	$ 52,700	(16.7)%
% of net revenue	1.3%	1.7%	

Amortization and write-off of acquired intangible assets decreased by $8.8 million in fiscal 2014 compared to fiscal 2013. The decrease was primarily due to certain intangible assets that became fully amortized. In addition, fiscal 2014 included a write-off of $8.1 million for the impairment of an acquired intangible asset compared to fiscal 2014, which included a $0.8 million write-off of IPR&D related to an abandoned project.

Interest and Other Income, net

	Year Ended		
	February 1, 2014	February 2, 2013	% Change in 2014
	(in thousands, except percentages)		
Interest and other income, net	$ 25,566	$ 15,533	64.6%
% of net revenue	0.7%	0.5%	

Interest and other income, net, increased by $10.0 million in fiscal 2014 as compared to fiscal 2013, primarily due to a $7.0 million gain on the sale of a business (see “Note 2 — Divestiture” in our Notes to the Consolidated Financial Statements set forth in Part II, Item 8 of the Annual Report on Form 10-K for further information) and the impact of the strengthening of the U.S. dollar on our foreign currency denominated tax liabilities. This was partially offset by lower interest income from lower average cash and investment balances, lower realized investment gains, and higher imputed interest expense related to technology license obligations during fiscal 2014. We also had $1.5 million in write downs of equity investments in fiscal 2014.

Provision (benefit) for Income Taxes

	Year Ended		
	February 1, 2014	February 2, 2013	% Change in 2014
	(in thousands, except percentages)		
Provision (benefit) for income taxes	$ (9,063)	$ 3,605	(351.4)%
% of net revenue	(0.3)%	0.1%	

We had an income tax benefit of 3.0% in fiscal 2014 compared to an effective tax rate of 1.2% in fiscal 2013. The income tax benefit for fiscal 2014 included the current income tax liability of $13.2 million plus a $3.9 million reduction in net deferred tax assets that included $1.2 million charge for the settlement of an audit in a non-U.S. jurisdiction. These tax charges were offset by a net reduction in unrecognized tax benefits of $22.6 million combined with a $3.9 million tax benefit due to return-to-provision adjustments upon filing of tax returns in fiscal 2014 that included a $0.5 million benefit from the settlement of an audit in a non-U.S. jurisdiction. The reduction in net deferred tax assets was mostly due to an increase in the Singapore deferred tax liability since the Singapore government had not yet granted an extension of the tax incentive arrangement in Singapore which was then expected to expire in June 2014. See “Note 9 — Income Taxes” in our Notes to the Consolidated Financial Statements set forth in Part II, Item 8 of the Annual Report on Form 10-K for further information. The net reduction in unrecognized tax benefits primarily arose from the expiration of statute of limitations in non-U.S. jurisdictions and from the settlement of two audits in non-U.S. jurisdictions less an increase in current unrecognized tax estimates.

Liquidity and Capital Resources

Our principal source of liquidity as of January 31, 2015 consisted of approximately $2.5 billion of cash, cash equivalents and short-term investments, of which approximately $900 million was held by foreign subsidiaries (outside Bermuda). Approximately $400 million of this amount held by foreign subsidiaries is related to undistributed earnings, which have been indefinitely reinvested outside of Bermuda. These funds are primarily held in China, Israel, Singapore, the United States and Switzerland. We have plans to use such amounts to fund various activities outside of Bermuda including working capital requirements, capital expenditures for expansion, funding of future acquisitions, or other financing activities. If such funds were needed by the parent company in Bermuda or if the amounts were otherwise no longer considered indefinitely reinvested, we would incur a tax expense of approximately $100 million. We believe that our existing cash, cash equivalents and short-term investments, together with cash generated from operations, exercise of employee stock options and purchases under our employee stock purchase plan will be sufficient to cover our working capital needs, capital expenditures, investment requirements, any declared dividends and commitments for at least the next 12 months. Our capital requirements will depend on many factors, including our rate of sales growth, market acceptance of our products, costs of securing access to adequate manufacturing capacity, the timing and extent of research and development projects, and increases in operating expenses, which are all subject to uncertainty. In addition, we are named as defendants to several litigation actions and an unfavorable outcome in any current litigation could have a material adverse effect on our liquidity, cash flows and results of operations. Specifically, with respect to the CMU litigation, a jury has awarded past damages of $1.17 billion plus enhancements. Based on a series of post-trial rulings, the District Court calculated the damages including enhancement to total approximately $1.54 billion, and held that, under its decision, CMU is entitled to post judgment interest and an ongoing royalty. Based on the royalty rate assessed by the District Court, such additional royalties for the period of time commencing on the date ordered by the District Court, January 15, 2013, through January 31, 2015 could be as much as $400 million. On May 7, 2014, the District Court entered final judgment and on May 14, 2014 we filed a notice of appeal to the U.S. Court of Appeals for the Federal Circuit in Washington, D.C., which is set for oral argument in April 2015. We have secured certain surety bonds for the duration of the appeal to stay execution of judgment pending the appeal. See "Note 10 — Commitments and Contingencies — Surety Bonds" in the Notes to the Consolidated Financial Statements for a further discussion of these surety bonds. We strongly believe that we do not infringe on the methods described in the CMU patents and that our products use our own internally developed patented read channel technology. See the section entitled "Off-Balance Sheet Arrangements" below for a discussion of the effects on liquidity from the CMU litigation.

To the extent that our existing cash, cash equivalents and short-term investments, and cash generated by operations are insufficient to fund our future activities, we may need to raise additional funds through public or private debt or equity financing. We may also enter into additional acquisitions of businesses, purchase assets or enter into other strategic arrangements in the future, which could also require us to seek debt or equity financing. Additional equity financing or convertible debt financing may be dilutive to our current shareholders. If we elect to raise additional funds, we may not be able to obtain such funds on a timely basis or on acceptable terms, if at all. If we raise additional funds by issuing additional equity or convertible debt securities, the ownership percentages of existing shareholders would be reduced. In addition, the equity or debt securities that we issue may have rights, preferences or privileges senior to our common shares.

On February 19, 2015, the Company announced that its board of directors declared a cash dividend of $0.06 per share to be paid on April 2, 2015 to shareholders of record as of March 12, 2015.

Net Cash Provided by Operating Activities

Net cash provided by operating activities was $728.9 million for fiscal 2015 compared to $448.0 million for fiscal 2014 and $729.0 million for fiscal 2013. The cash inflows from operations for fiscal 2015 were primarily due to $673.5 million of net income adjusted for non-cash items and positive working capital changes of $55.4 million. The positive impact on working capital was primarily driven by a decrease in accounts receivable due to improved collections and a decrease in inventories, combined with an increase in accrued employee compensation as a result of higher incentive compensation. The positive effect on working capital was partially offset by decreases in accounts payable, and accrued liabilities and other non-current liabilities due the timing of payments.

The cash inflows from operations for fiscal 2014 were primarily due to $623.0 million of net income adjusted for non-cash items and positive working capital changes of $175.0 million. The negative change in working capital for fiscal 2014 was primarily driven by an increase in accounts receivable from higher revenue levels and higher inventories due to the ramp up of new products.

The cash inflows from operations for fiscal 2013 were primarily due to $592.0 million of net income adjusted for non-cash items and positive working capital changes of $137.0 million. The positive change in working capital for fiscal 2013 was primarily driven by a decrease in inventories due to increased shipment towards the end of the current year and a decrease in accounts receivable due to improved collections in the fourth quarter of fiscal 2013 compared to the fourth quarter of fiscal 2012.

Net Cash Provided by and (Used in) Investing Activities

Net cash used in investing activities was $368.9 million for fiscal 2015 compared to net cash provided by investing activities of $74.8 million for fiscal 2014 and $178.8 million for fiscal 2013. For fiscal 2015, net cash used in investing activities was primarily due to purchases of available-for-sale securities of $1.1 billion, offset by the sales and maturities of available-for-sale securities of $826.3 million. In addition, we paid $63.0 million for the purchase of property and equipment, and $16.4 million for the purchase of technology licenses.

For fiscal 2014, net cash provided by investing activities was primarily generated from the sale and maturities of available-for-sale securities of $995.0 million less purchases of available-for-sale securities of $837.9 million. The net cash inflow from available-for-sale securities in fiscal 2014 was partially offset by the purchases of $66.6 million of property and equipment, and $17.6 million of IP licenses.

For fiscal 2013, net cash provided by investing activities was primarily generated from the sale and maturities of available-for-sale securities of $1.8 billion less purchases of available-for-sale securities of $1.5 billion. The net cash inflow from available-for-sale securities in fiscal 2013 was partially offset by the purchases of $68.2 million of property and equipment, and $35.0 million of IP licenses.

Net Cash Used in Financing Activities

Net cash used in financing activities was $114.8 million for fiscal 2015 compared to $309.0 million for fiscal 2014 and $940.8 million for fiscal 2013. For fiscal 2015, net cash used in financing activities was primarily attributable to payments of our quarterly cash dividends of $122.8 million and repurchases under our share repurchase program of our common shares in the open market for $65.0 million. The cash outflow was partially offset by net proceeds of $85.9 million from the issuance of our common shares under our share-based plans less the minimum tax withholding on behalf of employees for net share settlements.

For fiscal 2014, net cash used in financing activities was primarily attributable to repurchases under our share repurchase program of $376.3 million and payment of our quarterly cash dividends of $119.4 million in fiscal 2014. The cash outflow was partially offset by net proceeds of $194.1 million from the issuance of our common shares under our share-based plans less the minimum tax withholding paid on behalf of employees for net share settlements.

For fiscal 2013, net cash used in financing activities was primarily attributable to repurchases under our share repurchase program of $959.1 million. Of this amount, $22.2 million was unpaid and included in accrued liabilities as of February 2, 2013. We also paid cash dividends of $98.8 million in fiscal 2013. The cash outflow was partially offset by net proceeds of $94.8 million from the issuance of our common shares under our share-based plans less the minimum tax withholding paid on behalf of employees for net share settlements.

Off-Balance Sheet Arrangements

On May 14, 2014, we filed a Notice of Appeal to appeal the final judgment issued by the District Court in the CMU litigation. In order to stay the execution of the final judgment pending its appeal, we filed a supersedeas bond for $1.54 billion with the District Court. The bond was issued by a consortium of sureties authorized by the U.S. Treasury. If the judgment is affirmed after the completion of all appellate proceedings, and we do not thereafter fully satisfy the judgment within thirty days, the sureties are obligated under the bond to make payment to CMU. In support of the bond, we entered into separate indemnity agreements with each of the sureties to indemnify the sureties from all costs and payments made under the bond. The indemnity agreements did not require collateral to be posted at the time of the issuance of the bond. Therefore no cash is considered restricted as of the date of this filing. However, the indemnity agreements provide that each of the sureties have the right to demand to be placed in funds or call for collateral under pre-defined events. The indemnity agreements will remain outstanding for as long as the underlying bond remains outstanding. See also “Note 10 — Commitments and Contingencies” in the Notes to the Consolidated Financial Statements for a further discussion of this matter.

The Court has required us to report ongoing royalties under the current judgment. Based on the royalty rate assessed by the District Court, such additional royalties for the period of time commencing on the date ordered by the District Court, January 15, 2013, through January 31, 2015 could be as much as $400 million. On November 14, 2014, we filed a second surety bond for $216 million and filed a commitment letter from the sureties to issue up to an additional $95 million in bonding under certain conditions. The second bond and commitment are secured by our campus located in Santa Clara, California, which has a carrying value of $139 million at January 31, 2015. We and CMU have agreed that the second bond and commitment satisfy the security for ongoing royalties while the appeal is pending.

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities of financial partnerships, such as entities often referred to as structured finance or special purpose entities (“SPEs”), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of January 31, 2015, we were not involved in any unconsolidated SPE transactions.

Contractual Obligations and Commitments

Under our manufacturing relationships with our foundry partners, cancellation of outstanding purchase orders is allowed but requires repayment of all expenses incurred through the date of cancellation. As of January 31, 2015, these foundries had incurred approximately $252.1 million of manufacturing costs and expenses relating to our outstanding purchase orders.

The following table summarizes our contractual obligations as of January 31, 2015 and the effect that such obligations are expected to have on our liquidity and cash flow in future periods (in thousands):

	Payment Obligations by Fiscal Year						
	2016	2017	2018	2019	2020	Thereafter	Total
Contractual obligations:							
Facilities operating leases, net	$ 23,251	$ 11,885	$ 5,113	$ 1,622	$ 1,594	$ 3,542	$ 47,007
CAD and other operating leases	48,238	30,435	7,496	1,078	1,078	180	88,505
Purchase commitments to foundries	252,063	—	—	—	—	—	252,063
Capital purchase obligations	39,133	—	—	—	—	—	39,133
Technology license obligations	13,145	7,869	9,180	—	—	—	30,194
Other non-current obligations (1)	—	6,346	2,000	2,000	2,000	2,784	15,130
Total contractual cash obligations	$ 375,830	$ 56,535	$ 23,789	$ 4,700	$ 4,672	$ 6,506	$ 472,032

(1) Amounts represent anticipated future cash payments, including anticipated interest payments not recorded in the consolidated balance sheet.

In addition to the above commitments and contingencies, as of January 31, 2015, we have $38.5 million of unrecognized tax benefits as liabilities. We also have a liability for potential interest and penalties of $27.7 million as of January 31, 2015. During the next 12 months, it is reasonably possible that the amount of unrecognized tax benefits could increase or decrease significantly due to changes in tax law jurisdictions, new tax audits and changes in the U.S. dollar as compared to foreign currencies within the next 12 months. Excluding these factors, uncertain tax positions may decrease by as much as $20 million from the lapse of the statutes of limitation in various jurisdictions during the next 12 months.

Prospective Capital Needs

We believe that our existing cash, cash equivalents and short-term investments, together with cash generated from operations, exercise of employee stock options and purchases under our employee stock purchase plan will be sufficient to cover our working capital needs, capital expenditures, investment requirements, any declared dividends and commitments for at least the next 12 months. Our capital requirements will depend on many factors, including our rate of sales growth, market acceptance of our products, costs of securing access to adequate manufacturing capacity, the timing and extent of research and development projects and increases in operating expenses, which are all subject to uncertainty. In addition, we are named as defendants to several litigation actions and an unfavorable outcome in any current litigation could have a material adverse effect on our liquidity, cash flows and results of operations. Specifically, with respect to the CMU litigation, a jury has awarded past damages of $1.17 billion plus enhancements. Based on a series of post-trial rulings, the District Court calculated the damages including enhancement to total approximately $1.54 billion, and held that, under its decision, CMU is entitled to post judgment interest and an ongoing royalty. Based on the royalty rate assessed by the District Court, such additional royalties for the period of time commencing on the date ordered by the District Court, January 15, 2013, through January 31, 2015 could be as much as $400 million. On May 7, 2014, the District Court entered final judgment and on May 14, 2014 we filed a notice of appeal to the U.S. Court of Appeals for the Federal Circuit in Washington, D.C., which is set for oral argument in April 2015. We strongly believe that we do not infringe on the methods described in the CMU patents and that our products use our own internally developed patented read channel technology. See the sections entitled “Liquidity and Capital Resources” and “Off-Balance Sheet Arrangements” above for discussions of the effects on liquidity from the CMU litigation.

To the extent that our existing cash, cash equivalents and short-term investments, and cash generated by operations are insufficient to fund our future activities, we may need to raise additional funds through public or private debt or equity financing. We may also enter into additional acquisitions of businesses, purchase assets or enter into other strategic arrangements in the future, which could also require us to seek debt or equity financing. Additional equity financing or convertible debt financing may be dilutive to our current shareholders. If we elect to raise additional funds, we may not be able to obtain such funds on a timely basis or on acceptable terms, if at all. If we raise additional funds by issuing additional equity or convertible debt securities, the ownership percentages of existing shareholders would be reduced. In addition, the equity or debt securities that we issue may have rights, preferences or privileges senior to our common shares.

Recent Accounting Pronouncements

Please see “Note 1 — The Company and its Significant Accounting Policies — Recent Accounting Pronouncements” for further details in our Notes to the Consolidated Financial Statements set forth in Part II, Item 8 of this Form 10-K.

Related Party Transactions

Please see “Note 14 — Related Party Transactions” for further details in our Notes to the Consolidated Financial Statements set forth in Part II, Item 8 of this Form 10-K.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

Interest Rate Risk. Our interest rate risk relates primarily to our fixed income short-term investment portfolio as we did not have any outstanding debt as of January 31, 2015. We maintain an investment policy that requires minimum credit ratings, diversification of credit risk and limits the long-term interest rate risk by requiring maturities of generally less than five years. We invest our excess cash primarily in highly liquid debt instruments of the U.S. government and agency debt, time deposits, money market funds, corporate debt securities and asset backed securities. These investments are classified as available-for-sale and, consequently, are recorded on our balance sheets at fair market value with their related unrealized gain or loss reflected as a component of accumulated other comprehensive income in shareholders' equity. Investments in both fixed rate and floating rate interest earning securities carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall.

To provide an assessment of the interest rate risk associated with our investment portfolio, we performed a sensitivity analysis to determine the impact that an adverse change in interest rates would have on the value of the investment portfolio. Based on investment positions as of January 31, 2015, a hypothetical 100 basis point increase in interest rates across all maturities would result in a $18.8 million decline in the fair market value of the portfolio. Due to our positive cash flow from operations, the relatively short-term nature of our investment portfolio and our ability to hold investments to maturity, such change in fair market value would likely not result in any cash flow impact.

Investment Risk. We invest in equity instruments of privately-held companies for strategic purposes. We account for these investments under the cost method when we do not have the ability to exercise significant influence or control over the operations of these companies and under the equity method when we have the ability to exercise significant influence, but do not have control. Carrying value of these equity investments was $9.3 million at January 31, 2015, and was included in other non-current assets in our balance sheets. We monitor these investments for impairment and make appropriate reductions in carrying value when an impairment is deemed to be other-than-temporary.

Foreign Currency Exchange Risk. Substantially all of our sales and the majority of our expenses are denominated in U.S. dollars. Since we operate in many countries, we pay certain payroll and other operating expenses in local currencies, and these expenses may be higher or lower in U.S. dollar terms. Furthermore, our operations in Israel and China represent a large portion of our total foreign currency exposure. We may also hold certain assets and liabilities, including potential tax liabilities in local currency on our balance sheet. These tax liabilities would be settled in local currency. Therefore, foreign exchange gains and losses from remeasuring the tax liabilities are recorded to interest and other income, net. The related effects of foreign exchange fluctuations on local currency expenses are recorded to operating expenses. Significant fluctuations in exchange rates in countries where we incur expenses or record assets or liabilities in local currency could affect our business and operating results in the future. There is also a risk that our customers may be negatively impacted in their ability to purchase our products priced in U.S. dollars when there has been significant volatility in foreign currency exchange rates.

We engage in hedging transactions to help mitigate some of the volatility to forecasted cash flows due to changes in foreign exchange rates, and in particular hedge a portion of the forecasted Israeli shekel and Chinese yuan expenses. We enter into certain short-term forward exchange contracts, typically less than 12 months in duration, to hedge exposures for expenses and purchases denominated in foreign currencies when the currency exposure is significant and there is a high certainty of the underlying cash flow. We do not enter into derivative financial instruments for trading or speculative purposes. We may choose not to hedge certain foreign exchange exposures due to immateriality, offsetting exposures, prohibitive economic cost of hedging a particular currency, and limited availability of appropriate hedging instruments. To the extent our foreign currency hedges are effective, the results of the hedge activities offset the underlying expense within the operating expense. Financial