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.

Overview

We are a leading global semiconductor provider of high-performance application-specific standard products. Our core strength of expertise is the development of complex SoC devices, leveraging our extensive technology portfolio of intellectual property in the areas of analog, mixed-signal, digital signal processing, and embedded ARM-based microprocessor integrated circuits. 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 compared to individual components. Our broad product portfolio includes devices for data storage, enterprise-class Ethernet data switching, Ethernet PHY, mobile handsets and other consumer electronics, wireless networking, personal area networking, Ethernet-based PC connectivity, control plane communications controllers, video-image processing and power management solutions. 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. We are a fabless integrated circuit company, which means that 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.

Historically, a small number of customers have accounted for a significant portion of our net revenue. The following table sets forth sales to end customers comprising 10% or more of our net revenue for the periods indicated:

	Year Ended		
Customer	February 2, 2013	January 28, 2012	January 29, 2011
Western Digital	24%	19%	21%
Toshiba	10%	*	*
Seagate	10%	*	*
Research in Motion	*	*	14%

* Less than 10% of net revenue

In fiscal 2013, Western Digital acquired Hitachi's HDD unit and in fiscal 2012, Seagate acquired the HDD operations of Samsung.

We expect to continue to experience significant customer concentration in future periods and most of our sales are made to customers located outside of the United States, primarily in Asia. Sales to customers in Asia represented approximately 90%, 88% and 81% of our net revenue for fiscal 2013, 2012 and 2011, 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 to date have been denominated in U.S. dollars.

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.

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.

Our fiscal year is the 52- or 53-week period ending on the Saturday closest to January 31. In a 52-week year, each fiscal quarter consists of 13 weeks. The additional week in a 53-week year is added to the fourth quarter, making such quarter consist of 14 weeks. Fiscal 2013 had a 53-week period. Fiscal 2012 and 2011 each had a 52-week period.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in conformity with 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 on-going 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, 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 stock-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. 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.

Stock-Based Compensation. Stock-based compensation is measured at the grant date, based on the fair value of the award, and is recognized as expense over the requisite service period. We amortize stock-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. Stock-based compensation expense is recorded net of estimated forfeitures such that expense is recorded only for those stock-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 stock-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. To prepare our consolidated financial statements, 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 U.S. research credits and certain acquired net operating losses will not be realized and therefore we have provided a full valuation allowance against these credits. 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 provision for excess and obsolete 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 provision required 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 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.

During fiscal 2013, we recorded a charge of $0.8 million to write off in-process research and development related to an abandoned project. As of February 2, 2013, we had a total of $89.7 million in acquired intangible assets, of which $9.7 million represented the remaining in-process research and development.

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.

Results of Operations

Fiscal 2013 was a disappointing year for us. Within the storage end market, we experienced a decline in net revenue in our HDD products due to a weaker PC market. Within our mobile end market, we saw a continued decline in net revenue from our leading North American handset customer due to continued competitive challenges that they face. In addition, later in the year, we endured product transitions within the TD-SCDMA market in China, which led to a reduction in our fourth fiscal quarter revenue. Our net revenue of $3.2 billion in fiscal 2013 was 7% lower compared to net revenue of $3.4 billion in fiscal 2012. Net income for fiscal 2013 was $306.6 million, or $0.54 per share, compared to net income of $615.1 million in fiscal 2012, or $0.99 per share.

Despite these results, we remain confident in our investments and multiple near-term and long-term growth opportunities such as:

- In the mobile market, we believe we have a strong roadmap based on our unified platform. We are encouraged by the early design activities from our customers who are building phones for both the TD-SCDMA and WCDMA markets. In fact, we have started initial production shipments of our dual-core devices with leading OEMs for smartphone and tablet designs. We have also recently introduced our new quad-core device for our unified 3G platform and expect production units to ship in fiscal 2014. As the world rapidly transitions to LTE, we are accelerating our TD and FDD LTE roadmap, and we expect customers to upgrade to these 4G platform solutions over the course of the next year to 18 months.
- In wireless connectivity, we have historically focused on providing integrated 1x1 combo solutions for the mobile market, which demand the lowest power consumption, and high-performance 4x4 solutions for the enterprise market, which demand the highest possible throughput. We are gaining significant traction for our 4x4 solutions as global enterprise carriers are realizing this design is the necessary architecture for HD video distribution. In addition to our continued established presence in the 1x1 and 4x4 markets, we are now expanding our footprint by offering integrated 2x2 combo solutions for the tablet and ultrabook markets.
- In our storage business, we have made solid progress this past year. Despite the overall demand challenges within the PC market, we have gained market share within HDDs as we have seen strong growth for our 500 gigabyte per platter products. Based on our product roadmap and engagement with all the HDD OEMs, we believe we are well positioned for major new design wins. Within the SSD market, our revenue has continued to grow, and we are seeing excellent traction with our products at major SSD OEMs.
- In the networking market, we have outperformed the market during the past year, growing revenue by introducing products in new growth areas such as in passive optical network (GPON and EPON) and 10GbE switching, as well as programmable network processors introduced following our acquisition of Xelerated. Our customers are increasingly using our programmable network processors to manage both rising consumer bandwidth requirements and rising connected devices in the network. The change to programmable architectures is making software a key element and our investment in software for networking has been critical in quickly enabling differentiated platforms for our customers.

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

- Our cash, cash equivalents and short-term investments were $1.9 billion at February 2, 2013 and we generated cash flow from operations of $729.0 million during fiscal 2013.
- In May 2012, we announced our first quarterly dividend of $0.06 per share. As a result, we paid cash dividends for a total of $98.8 million in fiscal 2013 and we recently announced another dividend of $0.06 per share to be paid during the first quarter of fiscal 2014.
- We repurchased a total of 91.0 million of our common shares for $959.1 million in cash during fiscal 2013.

We are currently involved in a patent litigation action with CMU (See "Risk Factors" under Item 1A of this 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). 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. As a result, we have filed multiple post trial motions to overturn the jury verdict and if necessary, we will go through the appeal process.

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

	Year Ended		
	February 2, 2013	January 28, 2012	January 29, 2011
Net revenue	100%	100%	100%
Operating costs and expenses:			
Cost of goods sold	47.1	43.2	40.8
Research and development	33.4	29.9	24.9
Selling and marketing	5.1	4.7	4.3
General and administrative	3.4	3.0	2.9
Amortization and write-off of acquired intangible assets	1.7	1.4	2.2
Total operating costs and expenses	90.7	82.2	75.1
Operating income	9.3	17.8	24.9
Interest and other income, net	0.5	0.4	0.3
Income before income taxes	9.8	18.2	25.2
Provision for income taxes	0.1	0.1	0.2
Net income	9.7%	18.1%	25.0%

Years Ended February 2, 2013 and January 28, 2012

Net Revenue

	Year Ended		
	February 2, 2013	January 28, 2012	% Change in 2013
	(in thousands, except percentage)		
Net revenue	$3,168,630	$3,393,040	(6.6)%

Net revenue is gross revenue, net of accruals for estimated sales returns and rebates. The revenue decline during fiscal 2013 was primarily due to declines in the mobile and wireless end market, and to a lesser extent, a decline in the storage end market. Within our mobile and wireless end market, revenue from our leading North

American handset customer declined year-over-year due to the continued competitive challenges that they face. Within the storage end market, revenue declined in fiscal 2013 compared to the prior year primarily as a result of the slowdown in the global market for PC's. The flooding in Thailand during the second half of fiscal 2012 impacted our overall HDD revenue in both fiscal 2012 and fiscal 2013. One of our customers, for which we entered the year with a relatively low market segment share of their products, was impacted the least by the flooding in Thailand in the second half of fiscal 2012, which negatively impacted our revenue towards the beginning of the year. However, during the year, we continued to grow our share of revenue with this customer, offsetting most of the negative impacts from the floods. In addition, sales of our SSD products increased significantly in fiscal 2013 compared to fiscal 2012 as our products began to gain acceptance in the market. SSD sales still make up a small percentage of our total storage revenue, however, they are growing and making up an increasingly larger percentage of overall revenue. Net revenue from our networking end market increased slightly in fiscal 2013 compared to the prior fiscal year, due to growth in our PON and networking processing unit products as well as growth in switching products.

In the first quarter of fiscal 2014, we expect net revenue to be in the range of $700 million to $740 million, a decline of 7% at the midpoint, driven mainly by seasonality, as well as the impacts of Chinese New Year, which benefited our business in the fourth quarter of fiscal 2013.

Cost of Goods Sold

	Year Ended		
	February 2, 2013	January 28, 2012	% Change in 2013
	(in thousands, except percentage)		
Cost of goods sold	$1,493,497	$1,465,805	1.9%
% of net revenue	47.1%	43.2%	

Cost of goods sold as a percentage of net revenue in fiscal 2013 increased by 390 basis points, from 43.2% in fiscal 2012 to 47.1% in fiscal 2013. This increase was primarily due to product pricing declines outpacing the cost reductions received from our manufacturing partners. Unfavorable changes to the gross margin mix of our products sold compared to fiscal 2012, driven by growth in businesses with lower gross margins further contributed to the increase. 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 2014 will be slightly higher than the amount in the fourth quarter of fiscal 2013 based on the midpoint of our expected range.

Share-Based Compensation Expense

	Year Ended	
	February 2, 2013	January 28, 2012
	(in thousands)	
Cost of goods sold	$ 8,142	$ 6,995
Research and development	87,149	85,924
Selling and marketing	13,278	12,920
General and administrative	18,711	14,024
	$ 127,280	$ 119,863

We recognized higher share-based compensation expense as a result of higher headcount in fiscal 2013, combined with the effect of an increase in 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. Although share-based compensation expense increased by $7.4 million in fiscal 2013 compared to fiscal 2012, it included the recovery of previously recognized expense associated with unvested share-based awards that were cancelled as a result of the resignation in October 2012 of our then chief financial officer.

Research and Development

	Year Ended		
	February 2, 2013	January 28, 2012	% Change in 2013
	(in thousands, except percentage)		
Research and development	$1,057,445	$1,013,678	4.3%
% of net revenue	33.4%	29.9%	

Research and development expense increased by $43.8 million in fiscal 2013 compared to fiscal 2012, primarily due to higher personnel-related costs as a result of increased headcount in fiscal 2013 compared to fiscal 2012. In addition, since fiscal 2013 was a 53-week year, overall research and development expense were higher due to the additional week. The increase in the fiscal 2013 research and development expense was partially offset by a higher amount of product development funding from our customers.

We currently expect that research and development expense for the first quarter of fiscal 2014 will be approximately flat in the first quarter of fiscal 2014 compared to the fourth quarter of fiscal 2013.

Selling and Marketing

	Year Ended		
	February 2, 2013	January 28, 2012	% Change in 2013
	(in thousands, except percentage)		
Selling and marketing	$ 161,817	$ 159,434	1.5%
% of net revenue	5.1%	4.7%	

Selling and marketing expense increased by $2.4 million in fiscal 2013 compared to fiscal 2012. The increase was primarily due to increased trade show and marketing communication activities combined with higher expenses for other professional services. Although fiscal 2013 was a 53-week year, the increase in overall expense for the additional week was essentially offset by lower expenses for contractor services as we continue to tightly manage this spending.

We currently expect that selling and marketing expenses will be slightly lower in the first quarter of fiscal 2014 compared to the fourth quarter of fiscal 2013.

General and Administrative

	Year Ended		
	February 2, 2013	January 28, 2012	% Change in 2013
	(in thousands, except percentage)		
General and administrative	$ 108,514	$ 100,620	7.8%
% of net revenue	3.4%	3.0%	

General and administrative expense increased by $7.9 million in fiscal 2013 compared to fiscal 2012. The increase was primarily attributed to an increase in legal expenses, a significant portion of which related to the CMU trial towards the end of the fiscal year (See “Note 10 — Commitments and Contingencies” in the Notes to the Consolidated Financial Statements). In addition, since fiscal 2013 was a 53-week year, overall general and administrative expense were higher due to the additional week.

We currently expect that general and administrative expense will be slightly lower in the first quarter of fiscal 2014 compared to the fourth quarter of fiscal 2013.

Amortization and Write-Off of Acquired Intangible Assets

	Year Ended		
	February 2, 2013	January 28, 2012	% Change in 2013
	(in thousands, except percentage)		
Amortization and write-off of acquired intangible assets	$ 52,700	$ 49,357	6.8%
% of net revenue	1.7%	1.4%	

Amortization and write-off of acquired intangible assets increased by $3.3 million in fiscal 2013 compared to fiscal 2012. This increase was primarily due to additional amortization expense related to the intangible assets acquired in the fourth quarter of fiscal 2012 and the additional week of expense since fiscal 2013 was a 53-week year.

Interest and Other Income, net

	Year Ended		
	February 2, 2013	January 28, 2012	% Change in 2013
	(in thousands, except percentage)		
Interest and other income, net	$ 15,533	$ 14,913	4.2%
% of net revenue	0.5%	0.4%	

Interest and other income, net, consists primarily of interest earned on cash, cash equivalents and short-term investment balances, gains and losses on the sale of marketable and equity securities and foreign currency impacts, net of interest. The increase in interest and other income, net in fiscal 2013 compared to fiscal 2012 was primarily due to higher gains on sales of marketable securities. This was partially offset by lower interest income in fiscal 2013 from lower average cash and investment balances, as well as a lower rate of return.

Provision for Income Taxes

	Year Ended		
	February 2, 2013	January 28, 2012	% Change in 2013
	(in thousands, except percentage)		
Provision for income taxes	$ 3,605	$ 3,968	(9.1)%
% of net revenue	0.1%	0.1%	

During fiscal 2013, the provision for income taxes consisted of the current income tax liability of $20.1 million, which was primarily offset by net reductions in unrecognized tax benefits of $18.8 million due to the expiration of the statutes of limitations in multiple jurisdictions less increases in unrecognized tax benefits including interest and penalties. The fiscal 2013 provision for income taxes also included $2.3 million in tax expense that mainly resulted from tax provision-to-tax return adjustments in various countries. This compares to the provision for income taxes in fiscal 2012 consisting of the current income tax liability of $12.4 million, which was primarily offset by net reductions in unrecognized tax benefits of $6.1 million due to the expiration of the statutes of limitations in multiple jurisdictions less increases in unrecognized tax benefits including interest and penalties. The fiscal 2012 provision for income taxes also included a benefit of $2.3 million from a decrease in tax expense that mainly resulted from tax provision-to-tax return adjustments in various countries and from the settlements of audits in non-U.S. jurisdictions.

Years Ended January 28, 2012 and January 29, 2011

Net Revenue

	Year Ended		
	January 28, 2012	January 29, 2011	% Change in 2012
	(in thousands, except percentage)		
Net revenue	$3,393,040	$3,611,893	(6.1)%

The revenue decline during fiscal 2012 was primarily driven by challenges within our mobile and wireless end markets as well as the impact of natural disasters on our storage end markets. Within our mobile and wireless end markets, our leading handset customer faced challenges against their competition. Our mobile and wireless revenues were negatively impacted as our leading handset customer shifted their product volumes to more 2G and 2.5G devices that address several of the emerging markets around the world. This shift significantly impacted the demand for our 3G solutions. This decline was partially offset by the ramp of our mobile SoC products for the TD handset market in China, which were introduced during the first quarter of fiscal 2012 and ramped up over the course of the year. Within our storage end markets, our net revenue was negatively impacted by both the earthquakes in Japan at the tail end of the first quarter of fiscal 2012 as well as the floods in Thailand during the later part of our fiscal third quarter, which also impacted the fourth quarter of fiscal 2012. These natural disasters caused serious restrictions on our HDD customers’ ability to build drives, which in turn affected demand for our SoC solutions for these customers. Over the course of the year, we experienced the ramp up of a significant new customer and the growth in our SSD business, helping to partially offset the negative effects described above. Within our networking end markets, our net revenue increased moderately as demand increased with our largest customer along with the ramp of our EPON and GPON products during fiscal 2012.

Cost of Goods Sold

	Year Ended		
	January 28, 2012	January 29, 2011	% Change in 2012
	(in thousands, except percentage)		
Cost of goods sold	$1,465,805	$1,473,274	(0.5)%
% of net revenue	43.2%	40.8%	

Cost of goods sold as a percentage of net revenue in fiscal 2012 increased by 240 basis points, from 40.8% in fiscal 2011 to 43.2% in fiscal 2012. The increase during fiscal 2012 was primarily driven by declines in the average selling prices of our products, which outpaced the cost reductions received from our manufacturing partners, the volume and costs of new product tapeouts in advanced technology nodes and higher commodity costs in the assembly of our products. Specifically, the cost of gold increased significantly over the past year.

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Share-Based Compensation Expense

	Year Ended	
	January 28, 2012	January 29, 2011
	(in thousands)	
Cost of goods sold	$ 6,995	$ 7,522
Research and development	85,924	82,524
Selling and marketing	12,920	11,769
General and administrative	14,024	16,590
	$ 119,863	$ 118,405

Share-based compensation expense increased by $1.5 million in fiscal 2012 compared to fiscal 2011. The increase was due to the change in the “look-back” period for the employee stock purchase plan in fiscal 2012, which was partially offset by the restricted stock units granted under a tender offer exchange program that fully vested by the end of fiscal 2011.

Research and Development

	Year Ended		
	January 28, 2012	January 29, 2011	% Change in 2012
	(in thousands, except percentage)		
Research and development	$1,013,678	$ 897,578	12.9%
% of net revenue	29.9%	24.9%	

Research and development expenses increased by $116.1 million in fiscal 2012 compared to fiscal 2011, primarily due to an increase in personnel-related costs as a result of increased headcount, contractor services and other professional services. The impact of the higher headcount was slightly offset by lower incentive compensation, as a result of lower profitability. In addition, contributing to the increase were higher costs for third party intellectual property and various other research and development expenses to support our larger organization. The overall increase was partially offset by a decrease in depreciation expense.

Selling and Marketing

	Year Ended		
	January 28, 2012	January 29, 2011	% Change in 2012
	(in thousands, except percentage)		
Selling and marketing	$ 159,434	$ 155,481	2.5%
% of net revenue	4.7%	4.3%	

Selling and marketing expense increased by $4.0 million in fiscal 2012 compared to fiscal 2011 primarily due to an increase in personnel-related costs, including contractor services and other professional services. The increase was partially offset by a decrease in general selling and marketing expense, as we reduced trade show and public relations expenses.

General and Administrative

	Year Ended		
	January 28, 2012	January 29, 2011	% Change in 2012
	(in thousands, except percentage)		
General and administrative	$ 100,620	$ 104,830	(4.0)%
% of net revenue	3.0%	2.9%	

General and administrative expense decreased by $4.2 million in fiscal 2012 compared to fiscal 2011. This included a decrease in legal expenses, primarily due to the conclusion of a significant legal case in the prior fiscal year, and a decrease in stock-based compensation, as a result of adjustments recorded on certain grants connected to performance targets that were not achieved. In addition, incentive compensation expenses were slightly lower due to lower profitability.

Amortization and Write-Off of Acquired Intangible Assets

	Year Ended		
	January 28, 2012	January 29, 2011	% Change in 2012
	(in thousands, except percentage)		
Amortization and write-off of acquired intangible assets	$ 49,357	$ 79,538	(37.9)%
% of net revenue	1.4%	2.2%	

The decrease in amortization and write-off of acquired intangible assets of $30.2 million in fiscal 2012 compared to fiscal 2011 was primarily due to certain intangible assets becoming fully amortized during the year.

Interest and Other Income, net

	Year Ended		
	January 28, 2012	January 29, 2011	% Change in 2012
	(in thousands, except percentage)		
Interest and other income, net	$ 14,913	$ 9,270	60.9%
% of net revenue	0.4%	0.3%	

Interest and other income, net consists primarily of interest earned on cash, cash equivalents and short-term investment balances, gains and losses on the sale of marketable and equity securities and foreign currency impacts, net of interest paid. The increase in interest and other income, net in fiscal 2012 compared to fiscal 2011 was primarily due to higher interest income on our investments due to a slightly higher rate of return and lower currency translation losses. These increases were partially offset by net gains in fiscal 2011 on sales of investments in privately held companies of $5.9 million.

Provision for Income Taxes

	Year Ended		
	January 28, 2012	January 29, 2011	% Change in 2012
	(in thousands, except percentage)		
Provision for income taxes	$ 3,968	$ 6,333	(37.3)%
% of net revenue	0.1%	0.2%	

During fiscal 2012, the provision for income taxes consisted of the current income tax liability of $12.4 million, which was primarily offset by net reductions in unrecognized tax benefits of $6.1 million due to the expiration of the statutes of limitations in multiple jurisdictions less increases in unrecognized tax benefits including interest and penalty. The fiscal 2012 provision for income taxes also included a benefit of $2.3 million from a decrease in tax expense that mainly resulted from tax provision-to-tax return adjustments in various countries and from the settlements of audits in non-U.S. jurisdictions. This compares to the provision for income taxes in fiscal 2011 consisting of the current income tax liability of $13.8 million, which was primarily offset by net reductions in unrecognized tax benefits of $5.1 million due to the expiration of the statutes of limitations in multiple jurisdictions less increases in unrecognized tax benefits including interest and penalty. The fiscal 2011 provision for income taxes also included a net tax benefit of $3.4 million due to the release of a valuation allowance from the completion of a non-U.S. audit.

Liquidity and Capital Resources

Our principal source of liquidity as of February 2, 2013 consisted of approximately $1.9 billion of cash, cash equivalents and short-term investments.

Net Cash Provided by Operating Activities

Net cash provided by operating activities was $729.0 million for fiscal 2013 compared to $771.2 million for fiscal 2012 and $1.2 billion for fiscal 2011. 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.

The cash inflows from operations for fiscal 2012 were primarily due to $884.5 million of net income adjusted for non-cash items, as compared to $1.2 billion during fiscal 2011. Within working capital during fiscal 2012, accounts receivable decreased due to lower levels of revenue in the fourth quarter of fiscal 2012 compared to the fourth quarter of fiscal 2011. Inventories increased due primarily to two factors: (1) the floods in Thailand which increased our inventories of hard drive products at the end of fiscal 2012, and (2) the increased use of "hubs" managed by third party logistics providers. When products are shipped to these third party managed locations, the inventory remains on our books until pulled by the customer. Accounts payable decreased due to lower levels of purchasing activities near the end of fiscal 2012.

The cash inflows from operations for fiscal 2011 were primarily due to $1.2 billion of net income adjusted for non-cash items. Within working capital during fiscal 2011, accounts payable increased due to higher levels of purchasing to support our business. Deferred income increased as the inventory levels at our distributors were higher at the end of fiscal 2011. Accrued employee compensation increased due to higher accruals for incentive compensation programs due to the higher levels of revenue and operating income in fiscal 2011 compared to fiscal 2010. Accounts receivable increased due to higher levels of revenue. During fiscal 2011, other non-current assets and other long-term liabilities both decreased significantly compared to fiscal 2010, primarily as a result of the conversion of our severance plan for our employees in Israel.

Net Cash Provided by and (Used in) Investing Activities

Net cash provided by investing activities was $178.8 million for fiscal 2013 compared to net cash used in investing activities of $590.1 million for fiscal 2012 and $529.3 million for fiscal 2011. For fiscal 2013, net cash provided by investing activities was primarily generated from net sale and maturities of available-for-sale securities of $291.8 million. 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.

For fiscal 2012, net cash used in investing activities was primarily due to net purchases of available-for-sale securities of $393.5 million. In addition, we paid $93.9 million for acquisitions, purchased $88.8 million of property and equipment mainly to support additional capacity, and purchased $13.8 million of technology licenses in fiscal 2012.

For fiscal 2011, net cash used in investing activities was primarily due to net purchases of available-for-sale securities of $395.8 million. In addition, we purchased $90.2 million of property and equipment mainly to support additional capacity, paid $29.4 million for acquisitions and purchased $23.1 million of technology licenses in fiscal 2011.

Net Cash (Used in) Provided by Financing Activities

Net cash used in financing activities was $940.8 million for fiscal 2013 compared to $1.2 billion for fiscal 2012 and net cash provided by financing activities of $77.4 million for fiscal 2011. For fiscal 2013, net cash used in financing activities was primarily attributable to repurchases under our share repurchase program of 91.0 million of our common shares in the open market for $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.

For fiscal 2012, net cash used in financing activities was primarily attributable to repurchases under our share repurchase program of 87.8 million of its common shares in the open market for $1.3 billion. The cash outflow was partially offset net by proceeds of $97.9 million from the issuance of common shares under our share-based plans less the minimum tax withholding paid on behalf of employees for net share settlements.

For fiscal 2011, net cash provided by financing activities was attributable to net proceeds of $166.0 million from the issuance of common shares under our share-based plans less the minimum tax withholding paid on behalf of employees for net share settlement, which was partially offset by share repurchases under our share repurchase program. We repurchased 4.9 million common shares for a total of $87.5 million in fiscal 2011.

Contractual Obligations and Commitments

Under our manufacturing relationships with our foundry partners, cancellation of outstanding purchase orders is allowed but require repayment of all expenses incurred through the date of cancellation. As of February 2, 2013, these foundries had incurred approximately $212.1 million of manufacturing costs and expenses relating to our outstanding purchase orders.

The following table summarizes our contractual obligations as of February 2, 2013 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						
	2014	2015	2016	2017	2018	Thereafter	Total
Contractual obligations:							
Facilities operating leases, net	$ 22,462	$ 19,430	$ 14,289	$ 4,698	$ 375	$ 599	$ 61,853
CAD and other operating leases	26,074	24,202	12,518	1,933	1,078	2,337	68,142
Purchase commitments to foundries	212,069	—	—	—	—	—	212,069
Capital purchase obligations	32,394	—	—	—	—	—	32,394
Technology license obligations	9,351	9,579	9,807	7,869	9,180	—	45,786
Other non-current obligations (1)	—	10,165	4,830	419	—	2,972	18,386
Total contractual cash obligations	$ 302,350	$ 63,376	$ 41,444	$ 14,919	$ 10,633	$ 5,908	$ 438,630

(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 February 2, 2013, we have $61.6 million of unrecognized tax benefits as liabilities. We also have a liability for potential interest and penalties of $33.8 million as of February 2, 2013. During the next 12 months, it is reasonably possible that the amount of unrecognized tax benefits could decrease due to potential settlement with tax authorities and the expiration of applicable statutes of limitations. However, the amount cannot be reasonably estimated as we will have negotiations with various tax authorities throughout the year. At this time, we are unable to make a reasonably reliable estimate of the amount of payments in individual years beyond 12 months due to uncertainties in the timing of tax audit outcomes.

Off-balance sheet arrangements: 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 February 2, 2013, we were not involved in any unconsolidated SPE transactions.

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 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. However, we are named as defendants to several litigation actions and an unfavorable outcome in such actions could have a material adverse effect on our cash flows and results of operations.

To the extent that our existing cash, cash equivalents and investment balances 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 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 February 2, 2013. 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 less than five years. We invest our excess cash primarily in highly liquid debt instruments of the U.S. government and its agencies, time deposits, money market mutual funds and corporate debt securities. These investments are generally 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 February 2, 2013, a hypothetical 100 basis point increase in interest rates across all maturities would result in a $15.6 million incremental 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 have resulted in any cash flow impact.