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

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and related notes thereto included elsewhere in this report. This discussion contains forward-looking statements. Please see the "Cautionary Statement" and "Risk Factors" above for discussions of the uncertainties, risks and assumptions associated with these statements. Our fiscal year-end financial reporting periods are a 52-or 53-week year ending on the Saturday closest to December 31st. Fiscal 2014 was a 53-week year with the extra week occurring in the fourth quarter of the year and ended on January 3, 2015. Fiscal 2013 and 2012 were 52-week years and ended on December 28, 2013 and December 29, 2012, respectively.

Overview

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

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

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

- Broad-based products, which include our microcontroller (MCU), wireless and sensor products, timing products (clocks and oscillators), and power and isolation devices;
- Broadcast products, which include our broadcast audio and video products; and
- Access products, which include our Voice over IP (VoIP) products, embedded modems and our Power over Ethernet (PoE) devices.

Through acquisitions and internal development efforts, we have continued to diversify our product portfolio and introduce next-generation ICs with added functionality and further integration. On February 28, 2014, we purchased the full product portfolio and intellectual property of Touchstone Semiconductor, including op-amps, current sense amplifiers, low-power analog-to-digital converters (ADCs), comparators, power management ICs, timers, and voltage detectors and references.

In fiscal 2014, we introduced digital TV demodulators offering expanded support for emerging and established satellite, terrestrial and cable standards; a new family of PCI Express (PCIe) Gen1/2/3 fanout buffers designed for data center applications; next-generation EZRadio and EZRadioPRO® wireless ICs offering outstanding power efficiency, wireless range and flexibility; the sixth generation of our high-performance TV tuner ICs addressing global hybrid TV and digital TV markets; a small PCIe-compliant clock generator targeting consumer and embedded applications; sensor development kits to accelerate Internet of Things (IoT) system design; high-performance automotive tuner ICs designed to enhance AM/FM digital radio performance for car radio systems supporting broadcast standards worldwide; ultra-low-jitter, frequency-flexible clock solutions for high-speed data centers and Internet infrastructure; digital isolators offering high channel count, reliability and data rates for cost-sensitive consumer electronics applications; energy-efficient capacitive sensing MCUs for human-machine interfaces (HMI); a comprehensive software solution designed to simplify the development of wirelessly connected smart meters; a 32-bit hardware and firmware development kit designed to accelerate the design of Made for iPod®/iPhone®/iPad® (MFi) accessories; a new version of the Simplicity Studio™ development ecosystem that provides unified support for our energy-friendly 32-bit EFM32™ Gecko MCUs and 8-bit MCUs; the expansion of our ARM-based Ember® ZigBee® system-on-chip (SoC) family for advanced smart energy and home automation applications; and single-chip digital ultraviolet (UV) index sensors designed to track UV exposure, ambient light and biometrics for smartphones and wearables. We plan to continue to introduce products that increase the content we provide for existing applications, thereby enabling us to serve markets we do not currently address and expand our total available market opportunity.

During fiscal 2014, 2013 and 2012, we had one customer, Samsung, whose purchases across a variety of product areas represented 12%, 15% and 19% of our revenues, respectively. In addition to direct sales to customers, some of our end customers purchase products indirectly from us through distributors and contract manufacturers. An end customer purchasing through a contract manufacturer typically instructs such contract manufacturer to obtain our products and incorporate such products with other components for sale by such contract manufacturer to the end customer. Although we actually sell the products to, and are paid by, the distributors and contract manufacturers, we refer to such end customer as our customer. Two of our distributors, Edom Technology and Avnet, represented 20% and 12% of our revenues during fiscal 2014, 21% and 11% of our revenues during fiscal 2013, and 22% and 11% of our revenues during fiscal 2012, respectively. There were no other distributors or contract manufacturers that accounted for more than 10% of our revenues in fiscal 2014, 2013 or 2012.

The percentage of our revenues derived from outside of the United States was 86% in fiscal 2014, 88% in fiscal 2013 and 88% in fiscal 2012. All of our revenues to date have been denominated in U.S. dollars. We believe that a majority of our revenues will continue to be derived from customers outside of the United States.

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

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

Results of Operations

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

Revenues. Revenues are generated predominately by sales of our ICs. We recognize revenue on sales when all of the following criteria are met: 1) there is persuasive evidence that an arrangement exists, 2) delivery of goods has occurred, 3) the sales price is fixed or determinable, and 4) collectibility is reasonably assured. Generally, we recognize revenue from product sales to direct customers and contract manufacturers upon shipment. Certain of our sales are made to distributors under agreements allowing certain rights of return and price protection on products unsold by distributors. Accordingly, we defer the revenue and cost of revenue on such sales until the distributors sell the product to the end customer. A small portion of our revenues is derived from the sale of patents. The above revenue recognition criteria for patent sales are generally met upon the execution of the patent sale agreement. Our products typically carry a one-year replacement warranty. Replacements have been insignificant to date.

Our revenues are subject to variation from period to period due to the volume of shipments made within a period, the mix of products we sell and the prices we charge for our products. The vast majority of our revenues were negotiated at prices that reflect a discount from the list prices for our products. These discounts are made for a variety of reasons, including: 1) to establish a relationship with a new customer, 2) as an incentive for customers to purchase products in larger volumes, 3) to provide profit margin to our distributors who resell our products or 4) in response to competition. In addition, as a product matures, we expect that the average selling price for such product will decline due to the greater availability of competing products. Our ability to increase revenues in the future is dependent on increased demand for our established products and our ability to ship larger volumes of those products in response to such demand, as well as our ability to develop or acquire new products and subsequently achieve customer acceptance of newly introduced products.

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

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

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

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

Interest Expense. Interest expense consists of interest on our short and long-term obligations, including our Credit Facilities.

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

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

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

	Fiscal Year		
	2014	2013	2012
Revenues	100.0%	100.0%	100.0%
Cost of revenues	39.0	39.2	40.0
Gross margin	61.0	60.8	60.0
Operating expenses:			
Research and development	27.9	27.2	24.5
Selling, general and administrative	24.8	22.5	20.3
Operating expenses	52.7	49.7	44.8
Operating income	8.3	11.1	15.2
Other income (expense):			
Interest income	0.2	0.2	0.2
Interest expense	(0.6)	(0.6)	(0.2)
Other income (expense), net	0.0	0.0	0.1
Income before income taxes	7.9	10.7	15.3
Provision for income taxes	1.8	2.1	4.0
Net income	6.1%	8.6%	11.3%

Comparison of Fiscal 2014 to Fiscal 2013

Revenues

	Fiscal Year			%
(in millions)	2014	2013	Change	Change
Broad-based	$ 317.1	$ 281.8	$ 35.3	12.5%
Broadcast	204.3	199.8	4.5	2.2%
Access	99.3	98.5	0.8	0.9%
Revenues	$ 620.7	$ 580.1	$ 40.6	7.0%

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

- Increased revenues of $35.3 million for our Broad-based ICs, due primarily to market share gains for our MCU, wireless and sensor products, including products acquired from Energy Micro in July 2013. Broad-based revenue growth was offset in part by a decline in revenue for our touch controller ICs due to our exit from this market.

- Increased revenues of $4.5 million for Broadcast, due primarily to an increase in market share for our video ICs and the sale of patents of $7.1 million. The increase in Broadcast revenues was offset by decreased revenues for our audio ICs due to declines in market share.

Unit volumes of our products increased compared to fiscal 2013 by 5.2%. Average selling prices increased compared to the same period by 0.7%. The average selling prices of our products may fluctuate significantly from period to period. In general, as our products become more mature, we expect to experience decreases in average selling prices. We anticipate that newly announced, higher priced, next generation products and product derivatives will offset some of these decreases.

Gross Margin

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

The increased dollar amount of gross margin in fiscal 2014 was due to increases in gross margin of $25.3 million for our Broad-based products and $2.2 million for our Broadcast products, offset by a decrease in gross margin of $1.9 million for our Access products. Fiscal 2014 includes gross margin from the sale of patents of $7.1 million, which had no associated cost of revenues.

We may experience declines in the average selling prices of certain of our products. This creates downward pressure on gross margin as a percentage of revenues and may be offset to the extent we are able to: 1) introduce higher margin new products and gain market share with our ICs; 2) reduce costs of existing products through improved design; 3) achieve lower production costs from our wafer suppliers and third-party assembly and test subcontractors; 4) achieve lower production costs per unit as a result of improved yields throughout the manufacturing process; or 5) reduce logistics costs.

Research and Development

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

The increase in research and development expense in fiscal 2014 was principally due to increases of (a) $11.0 million for personnel-related expenses, including personnel costs associated with (i) increased headcount, and (ii) the acquisition of Energy Micro, and (b) $2.9 million for the amortization of intangible assets primarily related to our acquisition of Energy Micro. We expect that research and development expense will increase in absolute dollars in the first quarter of 2015, primarily due to costs associated with the acquisition of Bluegiga.

Recent development projects include digital TV demodulators offering expanded support for emerging and established satellite, terrestrial and cable standards; a new family of PCIe Gen1/2/3 fanout buffers designed for data center applications; next-generation EZRadio and EZRadioPRO wireless ICs offering outstanding power efficiency, wireless range and flexibility; the sixth generation of our high-performance TV tuner ICs addressing global hybrid TV and digital TV markets; a small PCIe-compliant clock generator targeting consumer and embedded applications; sensor development kits to accelerate IoT system design; high-performance automotive tuner ICs designed to enhance AM/FM digital radio performance for car radio systems supporting broadcast standards worldwide; ultra-low-jitter, frequency-flexible clock solutions for high-speed data centers and Internet infrastructure; digital isolators offering high channel count, reliability and data rates for cost-sensitive consumer electronics applications; energy-efficient capacitive sensing MCUs for HMI; a comprehensive software solution designed to simplify the development of wirelessly connected smart meters; a 32-bit hardware and firmware development kit designed to accelerate the design of MFi accessories; a new version of the Simplicity Studio development ecosystem that provides unified support for our energy-friendly 32-bit EFM32 Gecko MCUs and 8-bit MCUs; the expansion of our ARM-based Ember ZigBee SoC family for advanced smart energy and home automation applications; and single-chip digital UV index sensors designed to track UV exposure, ambient light and biometrics for smartphones and wearables.

Selling, General and Administrative

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

The increase in selling, general and administrative expense in fiscal 2014 was principally due to increases of (a) $11.0 million for adjustments to the fair value of acquisition-related contingent consideration, (b) $7.5 million for legal fees, primarily related to litigation, and (c) $7.5 million for personnel-related expenses, primarily associated with (i) increased headcount, and (ii) the acquisition of Energy Micro. The increase in selling, general and administrative expense in fiscal 2014 was offset in part by acquisition-related costs of $1.5 million in fiscal 2013. We expect that selling, general and administrative expense will decrease in absolute dollars in the first quarter of 2015, primarily due to declines in legal fees related to patent litigation.

Interest Income

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

Interest Expense

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

Other Income (Expense), Net

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

Provision for Income Taxes

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

The effective tax rate for fiscal 2014 increased from fiscal 2013, primarily due to the recognition of the fiscal 2012 federal research and development tax credit in fiscal 2013 due to the enactment of the American Taxpayer Relief Act of 2012 on January 2, 2013, as well as a decrease in the foreign tax rate benefit in fiscal 2014. This increase in the effective tax rate was partially offset by the reduction to a valuation allowance recorded in a prior year related to certain state loss and research and development tax credit carryforwards and the release in fiscal 2014 of prior year unrecognized tax benefits due to the lapse of the statute of limitations applicable to a tax deduction claimed on a prior year foreign tax return. We expect our effective tax rate for fiscal 2015 to decrease, primarily due to an expected increase in the ratio of foreign income to total income resulting from the completion of payments related to an intercompany licensing transaction. This expected decrease in the effective tax rate will be partially offset by the expiration of the federal research and development tax credit on December 31, 2014.

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

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Comparison of Fiscal 2013 to Fiscal 2012

Revenues

(in millions)	Fiscal Year 2013	Fiscal Year 2012	Change	% Change
Broad-based	$ 281.8	$ 270.1	$ 11.7	4.3%
Broadcast	199.8	186.1	13.7	7.4%
Access	98.5	107.1	(8.6)	(8.1)%
Revenues	$ 580.1	$ 563.3	$ 16.8	3.0%

The change in revenues in fiscal 2013 was due primarily to:

- Increased revenues of $11.7 million for our Broad-based ICs, due primarily to the addition of revenues from the acquisition of Energy Micro in July 2013 and Ember in July 2012 and market share gains for our timing ICs. Broad-based revenue growth was offset in part by declines in revenue for our touch controller ICs due to our planned exit from this market.

- Increased revenues of $13.7 million for our Broadcast ICs, due primarily to market share gains for our video ICs. Broadcast revenue growth was offset in part by declines in revenue for our audio ICs, which decreased primarily due to declines in market share.

- Decreased revenues of $8.6 million for our Access ICs. The decrease in Access revenues resulted primarily due to declines in market share for our VoIP ICs.

Unit volumes of our products decreased compared to fiscal 2012 by 8.1%. Average selling prices increased compared to the same period by 12.1%.

Gross Margin

(in millions)	Fiscal Year 2013	Fiscal Year 2012	Change
Gross margin	$ 352.9	$ 338.0	$ 14.9
Percent of revenue	60.8%	60.0%	0.8%

The increased dollar amount of gross margin in fiscal 2013 was due primarily to increases in gross margin of $15.2 million for our Broad-based products and $11.4 million for our Broadcast products, offset by a decrease in gross margin of $11.7 million for our Access products.

Research and Development

(in millions)	Fiscal Year 2013	Fiscal Year 2012	Change	% Change
Research and development	$ 157.8	$ 138.0	$ 19.8	14.4%
Percent of revenue	27.2%	24.5%		

The increase in research and development expense in fiscal 2013 was principally due to increases of (a) $11.4 million for personnel-related expenses, including personnel costs associated with (i) increased headcount, and (ii) the acquisition of Energy Micro and Ember, and (b) $4.0 million for the amortization of intangible assets primarily related to our acquisition of Energy Micro.

Selling, General and Administrative

(in millions)	Fiscal Year 2013	Fiscal Year 2012	Change	% Change
Selling, general and administrative	$ 130.8	$ 114.4	$ 16.4	14.3%
Percent of revenue	22.5%	20.3%		

The increase in selling, general and administrative expense in fiscal 2013 was principally due to a net gain of $8.5 million in fiscal 2012 from the purchase of our headquarters. Furthermore, the increase in selling, general and administrative expense in fiscal 2013 was also due to increases of (a) $2.5 million for sales commissions, (b) $2.1 million for personnel-related expenses, primarily associated with (i) increased headcount, and (ii) the acquisition of Energy Micro and Ember, and (c) $1.5 million for legal fees, primarily related to litigation and acquisition-related costs.

Interest Income

Interest income in fiscal 2013 was $0.9 million compared to $1.3 million in fiscal 2012.

Interest Expense

Interest expense in fiscal 2013 was $3.3 million compared $1.1 million in fiscal 2012. The increase in fiscal 2013 was principally due to higher average debt balances in the period on our Term Loan Facility under our Credit Agreement.

Other Income (Expense), Net

Other income (expense), net in fiscal 2013 was $0.2 million compared to $0.5 million in fiscal 2012.

Provision for Income Taxes

(in millions)	Fiscal Year 2013	Fiscal Year 2012	Change
Provision for income taxes	$ 12.2	$ 22.8	$ (10.6)
Effective tax rate	19.7%	26.4%	

The effective tax rate for fiscal 2013 decreased from fiscal 2012, primarily due to the fiscal 2012 tax charge related to the intercompany license of certain technology associated with the acquisition of Ember during fiscal 2012 and the recognition of the fiscal 2012 and fiscal 2013 federal research and development tax credits in fiscal 2013 as a result of the enactment of the American Taxpayer Relief Act of 2012 (the "Act") on January 2, 2013. The decrease in the effective tax rate for fiscal 2013 was partially offset by the release during fiscal 2012 of unrecognized tax benefits that were determined to be effectively settled during fiscal 2012.

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

Business Outlook

We expect revenues in the first quarter of fiscal 2015 to be in the range of $156 to $162 million. Furthermore, we expect our diluted earnings per share to be in the range of $0.08 to $0.14.

Liquidity and Capital Resources

Our principal sources of liquidity as of January 3, 2015 consisted of $335.2 million in cash, cash equivalents and short-term investments, of which approximately $225.7 million was held by our U.S. entities. The remaining balance was held by our foreign subsidiaries. Our cash equivalents and short-term investments consisted of municipal bonds, money market funds, corporate bonds, commercial paper, variable-rate demand notes, certificates of deposit, asset-backed securities, international government bonds, U.S. government agency and U.S. government bonds.

Our long-term investments consisted of auction-rate securities. In fiscal 2008, auctions for many of our auction-rate securities failed because sell orders exceeded buy orders. As of January 3, 2015, we held $8.0 million par value auction-rate securities, all of which have experienced failed auctions. These securities have contractual maturity dates ranging from 2033 to 2046. We are receiving the underlying cash flows on all of our auction-rate securities. The principal amounts associated with failed auctions are not expected to be accessible until a successful auction occurs, the issuer redeems the security, a buyer is found outside of the auction process or the underlying securities mature. We are unable to predict if these funds will become available before their maturity dates. We do not expect to need access to the capital represented by any of our auction-rate securities prior to their maturities.

Operating Activities

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

Net cash provided by operating activities was $120.2 million during fiscal 2013, compared to net cash provided of $97.1 million during fiscal 2012. Operating cash flows during fiscal 2013 reflect our net income of $49.8 million, adjustments of $62.7 million for depreciation, amortization, stock-based compensation and deferred income taxes, and a net cash inflow of $7.7 million due to changes in our operating assets and liabilities.

Accounts receivable decreased to $70.4 million at January 3, 2015 from $72.1 million at December 28, 2013. The decrease in accounts receivable resulted primarily from normal variations in the timing of collections and billings. Our average days sales outstanding (DSO) was 39 days at January 3, 2015 and 44 days at December 28, 2013.

Inventory increased to $52.6 million at January 3, 2015 from $45.3 million at December 28, 2013. Our inventory level is primarily impacted by our need to make purchase commitments to support forecasted demand and variations between forecasted and actual demand. Our average days of inventory (DOI) was 73 days at January 3, 2015 and 71 days at December 28, 2013.

Investing Activities

Net cash used in investing activities was $26.3 million during fiscal 2014, compared to net cash used of $105.9 million during fiscal 2013. The decrease in cash outflows was principally due to a net payment of $86.4 million for the acquisition of Energy Micro during fiscal 2013, offset by a decrease of $6.5 million of net proceeds from sales and maturities of marketable securities. In fiscal 2013, we acquired Energy Micro for approximately $140.6 million. See Note 9, *Acquisitions*, for additional information.

Net cash used in investing activities was $105.9 million during fiscal 2013, compared to net cash used of $139.3 million during fiscal 2012. The decrease in cash outflows was principally due to a decrease of $91.6 million for purchases of property and equipment, offset by an increase of $46.1 million for net purchases of marketable securities.

We anticipate capital expenditures of approximately $14 to $16 million for fiscal 2015. Additionally, as part of our growth strategy, we expect to evaluate opportunities to invest in or acquire other businesses, intellectual property or technologies that would complement or expand our current offerings, expand the breadth of our markets or enhance our technical capabilities.

Financing Activities

Net cash used in financing activities was $65.2 million during fiscal 2014, compared to net cash used of $23.9 million during fiscal 2013. The increase in cash outflows was principally due to an increase of $45.7 million for repurchases of our common stock. In October 2014, the Board of Directors authorized a program to repurchase up to $100 million of our common stock through December 2015 (and terminated the $35.6 million remaining authorization under the previously announced share repurchase program).

Net cash used in financing activities was $23.9 million during fiscal 2013, compared to net cash provided of $52.7 million during fiscal 2012. The increase in cash outflows was principally due to net proceeds of $98.3 million from the issuance of long-term debt in fiscal 2012, offset by a decline of $36.0 million for repurchases of our common stock in fiscal 2013.

Debt

On July 31, 2012, we entered into a $230 million five-year Credit Agreement (the "Agreement"). The Agreement consists of a $100 million Term Loan Facility and a $130 million Revolving Credit Facility.

The Term Loan Facility provides for quarterly principal amortization (equal to 5% of the principal in each of the first two years and 10% of the principal in each of the next three years) with the remaining balance payable upon the maturity date. The Revolving Credit Facility includes a $25 million letter of credit sublimit and a $10 million swingline loan sublimit. We have an option to increase the size of the Revolving Credit Facility by up to an aggregate of $50 million in additional commitments, subject to certain conditions. On September 27, 2012, we borrowed $100 million under the Term Loan Facility. To date, we have not borrowed under the Revolving Credit Facility.

The Term Loan Facility and Revolving Credit Facility, other than swingline loans, will bear interest at LIBOR plus an applicable margin or, at our option, a base rate (defined as the highest of the Bank of America prime rate, the Federal Funds rate plus 0.50% and a daily rate equal to one-month LIBOR plus 1.00%) plus an applicable margin. Swingline loans accrue interest at the base rate plus the applicable margin for base rate loans. The applicable margins for the LIBOR rate loans range from 1.50% to 2.50% and for base rate loans range from 0.50% to 1.50%, depending in each case, on the leverage ratio as defined in the Agreement. We also pay a commitment fee on the unused amount of the Revolving Credit Facility.

In connection with the closing of the Credit Agreement, we entered into a security and pledge agreement. Under the security and pledge agreement, we pledged equity securities of certain of our subsidiaries, subject to exceptions and limitations. The Credit Facilities contain various conditions, covenants and representations with which we must be in compliance in order to borrow funds and to avoid an event of default, including financial covenants that we must maintain a leverage ratio (funded debt/EBITDA) of no more than 2.5 to 1 and a minimum fixed charge coverage ratio (EBITDA/debt payments, income taxes and capital expenditures) of no less than 1.50 to 1. As of January 3, 2015, the Company was in compliance with all covenants of the Credit Facilities. See Note 11, *Debt*, to the Consolidated Financial Statements for additional information.

We have entered into an interest rate swap agreement as a hedge against the LIBOR portion of the variable interest payments under the Term Loan Facility and effectively converted the LIBOR portion of the interest on the Term Loan Facility to a fixed interest rate through the maturity date. See Note 5, *Derivative Financial Instruments*, to the Consolidated Financial Statements for additional information.

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

Contractual Obligations

The following table summarizes our contractual obligations as of January 3, 2015 (in thousands):

	Payments due by period						
	Total	2015	2016	2017	2018	2019	Thereafter
Long-term debt obligations (1)	$ 87,500	$ 10,000	$ 10,000	$ 67,500	$ —	$ —	$ —
Interest on long-term debt obligations (2)	5,926	2,496	2,241	1,189	—	—	—
Operating lease obligations (3)	22,403	4,463	4,137	3,398	2,517	1,490	6,398
Purchase obligations (4)	38,156	38,156	—	—	—	—	—
Other long-term obligations (5)	21,012	—	8,993	5,054	4,493	2,472	—

(1) Long-term debt obligations represent the principal due under our Term Loan Facility and include amounts classified as current portion of long-term debt.

(2) Interest on our long-term debt obligations is based on LIBOR plus an applicable margin. We have entered into an interest rate swap agreement as a hedge against the LIBOR portion of such variable interest payments and effectively converted the LIBOR portion of the interest on the Term Loan Facility to a fixed interest rate through the maturity date. As of January 3, 2015, the combined interest rate on the Term Loan Facility was 2.514%. The impact of the interest rate swap was factored into the calculation of the future interest payments on our long-term debt obligations.

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

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

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

We are unable to make a reasonably reliable estimate as to when or if cash settlement with taxing authorities will occur for our unrecognized tax benefits. Therefore, our liability of $3.9 million for unrecognized tax benefits is not included in the table above. See Note 17, *Income Taxes,* to the Consolidated Financial Statements for additional information.

Off-Balance Sheet Arrangements

As of January 3, 2015, we had no significant off-balance sheet arrangements.

Critical Accounting Policies and Estimates

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

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

Stock-based compensation—We recognize the fair-value of stock-based compensation transactions in the Consolidated Statements of Income. The fair value of our full-value stock awards (with the exception of market-based performance awards) equals the fair market value of our stock on the date of grant. The fair value of our market-based performance awards is estimated at the date of grant using a Monte-Carlo simulation. The fair value of our stock option and employee stock purchase plan grants is estimated at the date of grant using the Black-Scholes option pricing model. In addition, we are required to estimate the expected forfeiture rate of our stock grants and only recognize the expense for those shares expected to vest. If our actual experience differs significantly from the assumptions used to compute our stock-based compensation cost, or if different assumptions had been used, we may have recorded too much or too little stock-based compensation cost. See Note 13, *Stock-Based Compensation*, to the Consolidated Financial Statements for additional information.

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

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

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

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

Income taxes—We are required to calculate income taxes in each of the jurisdictions in which we operate. This process involves calculating the actual current tax liability together with assessing temporary differences in recognition of income (loss) for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our Consolidated Balance Sheet. We record a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. In assessing the need for a valuation allowance, we are required to estimate the amount of expected future taxable income. Judgment is inherent in this process and differences between the estimated and actual taxable income could result in a material impact on our Consolidated Financial Statements.

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