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 2012, 2011 and 2010 were 52-week years and ended on December 29, 2012, December 31, 2011 and January 1, 2011, 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, Huawei, LG Electronics, Pace, Panasonic, Sagem, Samsung, Technicolor, Varian Medical Systems and ZTE.

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

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

- Broad-based products, which include our microcontrollers, timing products (clocks and oscillators), power and isolation devices, and touch controllers;
- Broadcast products, which include our broadcast audio and video products;
- Access products, which include our Voice over IP (VoIP) products, embedded modems and our Power over Ethernet (PoE) devices; and
- Mature products, which include certain devices that are at the end of their respective life cycles and therefore receive minimal or no continued research and development investment.

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 July 3, 2012, we acquired Ember Corporation, a privately held company. Ember's products integrate high-performance, low-power 2.4 GHz wireless ICs with reliable and scalable software into a flexible and robust networking platform. We believe that this strategic acquisition provides us with the technology and software expertise required to enable the low-power mesh sensor networks being deployed today in a wide range of residential, commercial and industrial applications. See Note 9, *Acquisitions*, for additional information.

In fiscal 2012, we introduced the Precision32™ 32-bit mixed-signal microcontroller family, based on a patented architecture that provides customers with flexibility, performance and low power. We also introduced a digital relative humidity (RH) and temperature "sensor-on-a-chip" solution, low-jitter clock buffers with high integration of clock tree functions, a crystal-less USB-to-I^2S audio bridge designed to support a wide range of codecs and digital-to-analog converters (DACs), a family of digital isolators that are drop-in replacements for optocouplers, high-performance 8-bit microcontrollers featuring an integrated temperature sensor with best-in-class accuracy, two next-generation EZRadio wireless ICs designed to simplify the addition of high-performance wireless connectivity to cost-sensitive embedded applications, advanced AM/FM receivers tuned for the high-end consumer and professional audio equipment market, a family of TV tuners offering both best-in-class RF performance and support for all worldwide TV standards, a multimedia demodulator that merges all digital video broadcast (DVB) standards into a single-chip solution, isolated analog-to-digital (ADC) converters designed specifically for the demands of mains line monitoring, a single-port PoE controller that brings "plug-and-play" simplicity to embedded power sourcing equipment (PSE) designs, high performance, low power sub-GHz transceivers designed to maximize range and battery life for wireless systems, ultra-small and low power customizable clock generators ideal for space-limited, cost-sensitive embedded and consumer electronics and the expansion of our clocking solutions to address the stringent specifications of the PCI Express (PCIe) Generation 1/2/3 standards. We plan to continue to introduce products that increase the content we provide for existing applications, thereby enabling us to serve markets we do not currently address and expanding our total available market opportunity.

During fiscal 2012 and 2011, we had one customer, Samsung, whose purchases across a variety of product areas represented 19% and 13% of our revenues, respectively. We had no customers that accounted for more than 10% of our revenues during fiscal 2010. In addition to direct sales to customers, some of our end customers purchase products indirectly from us through distributors and contract manufacturers. An end customer purchasing through a contract manufacturer typically instructs such contract manufacturer to obtain our products and incorporate such products with other components for sale by such contract manufacturer to the end customer. Although we actually sell the products to, and are paid by, the distributors and contract manufacturers, we refer to such end customer as our customer. Two of our distributors, Edom Technology and Avnet, represented 22% and 11% of our revenues during fiscal 2012, respectively. Edom, Avnet and Macnica, represented 24%, 12% and 10% of our revenues during fiscal 2011, respectively. Edom and Avnet represented 28% and 14% of our revenues during fiscal 2010, respectively. There were no other distributors or contract manufacturers that accounted for more than 10% of our revenues in fiscal 2012, 2011 or 2010.

The percentage of our revenues derived from outside of the United States was 88% in fiscal 2012, 86% in fiscal 2011 and 86% in fiscal 2010. All of our revenues to date have been denominated in U.S. dollars. We believe that a majority of our revenues will continue to be derived from customers outside of the United States.

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

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

Results of Operations

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

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

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

Research and Development. Research and development expense consists primarily of personnel-related expenses, including stock-based compensation, 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 statutory rates adjusted for non-deductible expenses, research and development tax credits and other permanent differences.

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

	Fiscal Year		
	2012	2011	2010
Revenues	100.0%	100.0%	100.0%
Cost of revenues	40.0	39.3	34.3
Gross margin	60.0	60.7	65.7
Operating expenses:			
Research and development	24.5	27.7	25.1
Selling, general and administrative	20.3	22.8	23.0
Operating expenses	44.8	50.5	48.1
Operating income	15.2	10.2	17.6
Other income (expense):			
Interest income	0.2	0.3	0.4
Interest expense	(0.2)	0.0	0.0
Other income (expense), net	0.1	0.1	(0.3)
Income before income taxes	15.3	10.6	17.7
Provision for income taxes	4.0	3.4	2.9
Net income	11.3%	7.2%	14.8%

Comparison of Fiscal 2012 to Fiscal 2011

Revenues

	Fiscal Year			%
(in millions)	2012	2011	Change	Change
Revenues	$ 563.3	$ 491.6	$ 71.7	14.6%

The growth in revenues in fiscal 2012 was due primarily to market share gains and the addition of product revenues from the acquisition of Ember in July 2012. Unit volumes of our products increased compared to fiscal 2011 by 18.0%. Average selling prices decreased compared to the same period by 3.0%. The average selling prices of our products may fluctuate significantly from period to period. In general, as our products become more mature, we expect to experience decreases in average selling prices. We anticipate that newly announced, higher priced, next generation products and product derivatives will offset some of these decreases.

Gross Margin

	Fiscal Year			%
(in millions)	2012	2011	Change	Change
Gross margin	$ 338.0	$ 298.4	$ 39.6	13.3%
Percent of revenue	60.0%	60.7%		

The increase in the dollar amount of gross margin in fiscal 2012 was primarily due to our increased sales, offset in part by an increase in acquisition-related charges. The decrease in gross margin as a percent of revenue was primarily due to changes in product mix.

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

Research and Development

(in millions)	Fiscal Year 2012	Fiscal Year 2011	Change	% Change
Research and development	$ 138.0	$ 136.0	$ 2.0	1.5%
Percent of revenue	24.5%	27.7%		

The increase in research and development expense in fiscal 2012 was principally due to an increase of $2.8 million for personnel-related expenses, including personnel costs associated with the acquisition of Ember. The decrease in research and development expense as a percent of revenues in fiscal 2012 is due to our increased revenues. We expect that research and development expense will increase modestly in absolute dollars in the first quarter of 2013.

Recent development projects include a digital RH and temperature "sensor-on-a-chip" solution, low-jitter clock buffers with high integration of clock tree functions, a crystal-less USB-to-I^2S audio bridge designed to support a wide range of codecs and DACs, a family of digital isolators that are drop-in replacements for optocouplers, high-performance 8-bit microcontrollers featuring an integrated temperature sensor with best-in-class accuracy, two next-generation EZRadio wireless ICs designed to simplify the addition of high-performance wireless connectivity to cost-sensitive embedded applications, advanced AM/FM receivers tuned for the high-end consumer and professional audio equipment market, a family of TV tuners offering both best-in-class RF performance and support for all worldwide TV standards, a multimedia demodulator that merges all DVB standards into a single-chip solution, isolated ADC converters designed specifically for the demands of mains line monitoring, a single-port PoE controller that brings "plug-and-play" simplicity to embedded PSE designs, the Precision32 32-bit mixed-signal microcontroller family, high performance, low power sub-GHz transceivers designed to maximize range and battery life for wireless systems, ultra-small and low power customizable clock generators ideal for space-limited, cost-sensitive embedded and consumer electronics, and the expansion of our clocking solutions to address the stringent specifications of the PCIe Generation 1/2/3 standards.

Selling, General and Administrative

(in millions)	Fiscal Year 2012	Fiscal Year 2011	Change	% Change
Selling, general and administrative	$ 114.4	$ 112.4	$ 2.0	1.8%
Percent of revenue	20.3%	22.8%		

The increase in selling, general and administrative expense in fiscal 2012 was principally due to increases of (a) $6.5 million for personnel-related expenses, including severance related to a separation agreement between us and our former CEO, (b) $1.5 million for legal fees, primarily related to litigation and acquisition-related costs, and (c) $0.8 million for product marketing costs. The increase in fiscal 2012 was offset in part by a net gain of $8.5 million from the purchase of our headquarters in fiscal 2012. The decrease in selling, general and administrative expense as a percent of revenues in fiscal 2012 is due to our increased revenues. We expect that selling, general and administrative expense will remain relatively stable in absolute dollars in the first quarter of 2013.

Interest Income

Interest income in fiscal 2012 was $1.3 million compared to $1.9 million in fiscal 2011.

Interest Expense

Interest expense in fiscal 2012 was $1.1 million compared to $37 thousand in fiscal 2011. The increase in fiscal 2012 is principally due to interest on our Term Loan Facility under our Credit Agreement.

Other Income (Expense), Net

Other income (expense), net in fiscal 2012 was $0.5 million compared to $0.4 million in fiscal 2011.

Provision for Income Taxes

	Fiscal Year		
(in millions)	**2012**	**2011**	**Change**
Provision for income taxes	$ 22.8	$ 16.9	$ 5.9
Effective tax rate	26.4%	32.2%	

The effective tax rate for fiscal 2012 decreased from the prior period, primarily due to the release of prior year unrecognized tax benefits that were determined to be effectively settled during the current period, along with one-time nondeductible costs associated with the acquisition of Spectra Linear in fiscal 2011. The impact of these items was partially offset by the non-renewal of the federal research and development tax credit in the current period.

The American Taxpayer Relief Act of 2012 (the "Act") was enacted on January 2, 2013. The Act retroactively reinstates the federal research and development credit from January 1, 2012, through December 31, 2013. The effect of the change in the tax law related to fiscal 2012 is estimated to be between $3.5 million and $4.0 million, which will be recognized as a benefit to income tax expense in the first quarter of fiscal 2013, the quarter in which the law was enacted.

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

Comparison of Fiscal 2011 to Fiscal 2010

Revenues

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

Unit volumes of our products decreased compared to fiscal 2010 by 1.0%. Average selling prices increased during the same period by 1.2%.

Gross Margin

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

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

Research and Development

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

The increase in research and development expense in fiscal 2011 was primarily due to (a) an increase of $8.6 million for personnel-related expenses, including $1.6 million for one-time personnel costs associated with the acquisition of Spectra Linear, (b) an increase of $2.3 million for amortization of intangible assets, and (c) $1.0 million for the impairment of intangible assets.

Selling, General and Administrative

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

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

Interest Income

Interest income in fiscal 2011 was $1.9 million compared to $2.3 million in fiscal 2010.

Interest Expense

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

Other Income (Expense), Net

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

Provision for Income Taxes

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

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

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

Business Outlook

We expect revenues in the first quarter of fiscal 2013 to be down sequentially four to eight percent. Furthermore, we expect our diluted earnings per share to be in the range of $0.34 to $0.40.

Liquidity and Capital Resources

Our principal sources of liquidity as of December 29, 2012 consisted of $282.0 million in cash, cash equivalents and short-term investments, of which approximately $119.4 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 corporate bonds, money market funds, municipal bonds, U.S. Treasury bills, variable-rate demand notes, U.S. government bonds, asset-backed securities and international government bonds.

Our long-term investments consisted of auction-rate securities. Early in fiscal 2008, auctions for many of our auction-rate securities failed because sell orders exceeded buy orders. As of December 29, 2012, we held $12.5 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.

Net cash provided by operating activities was $97.1 million during fiscal 2012, compared to net cash provided of $88.7 million during fiscal 2011. Operating cash flows during fiscal 2012 reflect our net income of $63.5 million, adjustments of $56.5 million for depreciation, gains on the purchase of property and equipment, amortization, stock-based compensation and deferred income taxes, and a net cash outflow of $22.9 million due to changes in our operating assets and liabilities.

Accounts receivable increased to $78.0 million at December 29, 2012 from $55.4 million at December 31, 2011. The increase in accounts receivable resulted primarily from an increase in shipments during the last quarter of fiscal 2012 compared to the last quarter of fiscal 2011. Our average days sales outstanding (DSO) was 46 days at December 29, 2012 and 39 days at December 31, 2011.

Inventory increased to $49.6 million at December 29, 2012 from $34.8 million at December 31, 2011. Our inventory level is primarily impacted by our need to make purchase commitments to support forecasted demand and variations between forecasted and actual demand. Our average days of inventory (DOI) was 76 days at December 29, 2012 and 63 days at December 31, 2011.

Net cash used in investing activities was $139.3 million during fiscal 2012, compared to net cash used of $25.2 million during fiscal 2011. The increase in cash outflows was principally due to increases of $93.4 million for purchases of property and equipment and $44.6 million in net payments for the acquisition of businesses, offset by an increase of $28.3 million from net proceeds from sales and maturities of marketable securities. On July 3, 2012, we acquired Ember, a privately held company, for approximately $79.0 million, including contingent consideration with an estimated fair value of $4.0 million at the date of acquisition. On September 28, 2012, we purchased our corporate headquarters facilities. See Note 9, *Acquisitions*, for additional information.

We anticipate capital expenditures of approximately $14 to $18 million for fiscal 2013. Additionally, as part of our growth strategy, we expect to evaluate opportunities to invest in or acquire other businesses, intellectual property or technologies that would complement or expand our current offerings, expand the breadth of our markets or enhance our technical capabilities.

Net cash provided by financing activities was $52.7 million during fiscal 2012, compared to net cash used of $107.2 million during fiscal 2011. The increase in cash inflows was principally due from net proceeds of $98.3 million from the issuance of long-term debt and outflows declining $48.0 million for repurchases of our common stock. In April 2012, our Board of Directors authorized a program to repurchase up to $100 million of our common stock through January 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 a per annum rate based on 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 December 29, 2012, the Company was in compliance with all covenants of the Credit Facilities. See Note 11, *Debt*, 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 December 29, 2012 (in thousands):

	Payments due by period						
	Total	2013	2014	2015	2016	2017	Thereafter
Long-term debt obligations (1)	$ 100,000	$ 5,000	$ 7,500	$ 10,000	$ 10,000	$ 67,500	$ —
Interest on long-term debt obligations (2)	11,771	2,837	2,708	2,530	2,507	1,189	—
Operating lease obligations (3)	13,478	3,523	2,521	1,868	1,866	1,665	2,035
Purchase obligations (4)	36,001	35,992	9	—	—	—	—
Other long-term obligations (5)	2,255	—	1,991	—	—	—	264

(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 December 29, 2012, 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) 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 $4.4 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 December 29, 2012, 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 standard cost exceeds the estimated market value less selling costs. We assess the potential for any unusual customer returns based on known quality or business issues and write-off inventory losses for scrap or non-saleable material. Inventory not otherwise identified to be written down is compared to an assessment of our 12-month forecasted demand. The result of this methodology is compared against the product life cycle and competitive situations in the marketplace to determine the appropriateness of the resulting inventory levels. Demand for our products may fluctuate significantly over time, and actual demand and market conditions may be more or less favorable than those that we project. In the event that actual demand is lower or market conditions are worse than originally projected, additional inventory write-downs may be required.

Stock-based compensation—We recognize the fair-value of stock-based compensation transactions in the Consolidated 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 award grants is estimated at the date of grant using a Monte-Carlo simulation. The fair value of our stock option and employee stock purchase plan grants is estimated at the date of grant using the Black-Scholes option pricing model. In addition, we are required to estimate the expected forfeiture rate of our stock grants and only recognize the expense for those shares expected to vest. If our actual experience differs significantly from the assumptions used to compute our stock-based compensation cost, or if different assumptions had been used, we may have recorded too much or too little stock-based compensation cost. See Note 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 if the weight of available evidence indicates that the tax position has met the threshold for recognition; therefore, we must evaluate whether it is more likely than not that the position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step requires us to measure the tax benefit of the tax position taken, or expected to be taken, in an income tax return as the largest amount that is more than 50% likely of being realized upon ultimate settlement. This measurement step is inherently complex and requires subjective estimations of such amounts to determine the probability of various possible outcomes. We re-evaluate the uncertain tax positions each quarter based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, expirations of statutes of limitation, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision in the period.

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

Recent Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Update (ASU) No. 2012-02,*Intangibles—Goodwill and Other (Topic 350)—Testing Indefinite-Lived Intangible Assets for Impairment*. ASU 2012-02 permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with Subtopic 350-30. If an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then no further action is required. If an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The adoption of this ASU is not expected to have a material impact on our financial statements.

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest Income

Our investment portfolio includes cash, cash equivalents, short-term investments and long-term investments. Our main investment objectives are the preservation of investment capital and the maximization of after-tax returns on our investment portfolio. Our interest income is sensitive to changes in the general level of U.S. interest rates. Our investment portfolio holdings as of December 29, 2012 and December 31, 2011 yielded less than 100 basis points. A decline in yield to zero basis points on our investment portfolio holdings as of December 29, 2012 and December 31, 2011 would decrease our annual interest income by approximately $1.2 million and $1.9 million, respectively. We believe that our investment policy, which defines the duration, concentration, and minimum credit quality of the allowable investments, meets our investment objectives.

Interest Expense

We are exposed to interest rate fluctuations in the normal course of our business, including through our Credit Facilities. The interest payments on the facility are calculated using a variable-rate