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 31. Fiscal 2016 and 2015 were 52-week years and ended on December 31, 2016 and January 2, 2016, respectively. 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.

Overview

We are a provider of silicon, software and solutions for the Internet of Things (IoT), Internet infrastructure, industrial, consumer and automotive markets. We solve some of the electronics industry's toughest problems, providing customers with significant advantages in performance, energy savings, connectivity and design simplicity. Mixed-signal integrated circuits (ICs) are electronic components that convert real-world analog signals, such as sound and radio waves, into digital signals that electronic products can process. Therefore, mixed-signal ICs are critical components in products addressing a variety of markets, including industrial, communications, consumer and automotive.

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 and software enables us to develop highly differentiated solutions that address multiple markets. We group our products into the following categories:

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

Current Period Highlights

Revenues increased $52.8 million in fiscal 2016 compared to fiscal 2015, primarily due to increased revenues from our IoT and Infrastructure products offset by decreases in revenues from our Access and Broadcast products. Infrastructure revenues in fiscal 2016 included $5.0 million from the sale of patents. Gross margin increased $40.7 million during the same period due primarily to increased product sales. Operating expenses increased $6.7 million in fiscal 2016 compared to fiscal 2015 due primarily to increased personnel-related expenses and new product introduction costs, offset by adjustments to the fair value of acquisition-related contingent consideration and decreased acquisition-related costs and legal fees.

We ended fiscal 2016 with $295.1 million in cash, cash equivalents and short-term investments. Net cash provided by operating activities was $128.9 million during fiscal 2016. Accounts receivable increased to $74.4 million at December 31, 2016 compared to January 2, 2016, representing 37 days sales outstanding (DSO). Inventory increased to $59.6 million at December 31, 2016 compared to January 2, 2016, representing 73 days of inventory (DOI). In fiscal 2016, we repurchased 0.9 million shares of our common stock for $40.5 million. In fiscal 2016, we settled the remaining amount of the contingent consideration to be paid in connection with the Energy Micro acquisition. The settlement amount was $16.0 million.

Through acquisitions and internal development efforts, we have continued to diversify our product portfolio and introduce new products and solutions with added functionality and further integration. In fiscal 2016, we acquired Micrium, LLC. Micrium is a supplier of real-time operating system (RTOS) software for the IoT. See Note 8, *Acquisitions*, to the Consolidated Financial Statements for additional information.

In fiscal 2016, we introduced two new wireless occupancy sensor and smart outlet reference designs for the home automation market; new audio software products for the automotive radio market; a Bluetooth software solution that enables developers to efficiently create Apple® HomeKit™-enabled accessories; a mesh networking stack conforming to the Thread 1.1 specification; a small-footprint Bluetooth low energy system-in-package (SiP) module with a built-in chip antenna; a complete sensor-to-cloud Thunderboard kit that simplifies development of cloud-connected devices for the IoT; Wireless Gecko modules focused on mesh networking applications; a major update to our Simplicity Studio software development tools for IoT connected device applications; a CMOS-based family of isolated field effect transistor (FET) drivers; isolated gate drivers designed to protect power inverter and motor drive applications; high-speed, multi-channel programmable logic controller (PLC) isolators; a small, low-power USBXpress™ bridge device; multiband Wireless Gecko system-on-chip (SoC) devices enabling both 2.4 GHz and sub-GHz multiprotocol connectivity for the IoT market; a comprehensive reference design for cables and adapters based on the USB Type-C™ specification; jitter-attenuating clocks that simplify 100G/400G coherent optical line card and module design; a fully integrated, pre-certified Bluetooth module for low-energy applications; a family of isolated gate drivers for high-speed power supply designs; a plug-and-play Wi-Fi module solution for IoT applications; the scalable Blue Gecko wireless SoC family for the Bluetooth low-energy market; the Wireless Gecko portfolio of multiprotocol SoC devices for IoT applications; next-generation optical sensors that enable enhanced measurement of ultraviolet (UV) radiation and gesture recognition; and an optical heart rate sensing solution for wrist-based heart rate monitoring (HRM) applications. 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 2016 and 2015, we had no end customer that represented more than 10% of our revenues. During fiscal 2014, we had one end customer, Samsung, whose purchases across a variety of product areas represented 12% of our revenues. 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. Three of our distributors who sell to our customers, Edom Technology, Avnet and Arrow Electronics, each represented 17%, 13% and 11% of our revenues during fiscal 2016. Edom and Avnet represented 20% and 12% of our revenues during fiscal 2015, and 20% and 12% of our revenues during fiscal 2014, respectively. There were no other distributors or contract manufacturers that accounted for more than 10% of our revenues in fiscal 2016, 2015 or 2014.

The percentage of our revenues derived from outside of the United States was 86% in fiscal 2016, 85% in fiscal 2015 and 86% in fiscal 2014. Substantially all of our revenues to date have been denominated in U.S. dollars. We believe that a majority of our revenues will continue to be derived from customers outside of the United States.

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

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

Results of Operations

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

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

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

Cost of Revenues. Cost of revenues includes the cost of purchasing finished silicon wafers processed by independent foundries; costs associated with assembly, test and shipping of those products; costs of personnel and equipment associated with manufacturing support, logistics and quality assurance; costs of software royalties, other intellectual property license costs and certain acquired intangible assets; and an allocated portion of our occupancy costs. Our gross margin as a percentage of revenue fluctuates depending on product mix, manufacturing yields, inventory valuation adjustments, average selling prices and other factors.

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, Net. Other, 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		
	2016	2015	2014
Revenues	100.0%	100.0%	100.0%
Cost of revenues	39.6	40.9	39.0
Gross margin	60.4	59.1	61.0
Operating expenses:			
Research and development	28.6	29.2	27.9
Selling, general and administrative	22.3	24.9	24.8
Operating expenses	50.9	54.1	52.7
Operating income	9.5	5.0	8.3
Other income (expense):			
Interest income	0.2	0.1	0.2
Interest expense	(0.4)	(0.4)	(0.6)
Other, net	(0.1)	0.0	0.0
Income before income taxes	9.2	4.7	7.9
Provision for income taxes	0.4	0.1	1.8
Net income	8.8%	4.6%	6.1%

Comparison of Fiscal 2016 to Fiscal 2015

Revenues

(in millions)	Fiscal Year 2016	Fiscal Year 2015	Change	% Change
Internet of Things	$ 314.6	$ 262.3	$ 52.3	19.9%
Broadcast	157.7	161.8	(4.1)	(2.5)%
Infrastructure	147.7	122.0	25.7	21.1%
Access	77.6	98.7	(21.1)	(21.4)%
Revenues	$ 697.6	$ 644.8	$ 52.8	8.2%

The change in revenues in fiscal 2016 was due primarily to:

- Increased revenues of $52.3 million for our Internet of Things products, due primarily to increases in the market and the addition of revenues from acquisitions.
- Decreased revenues of $4.1 million for Broadcast products, due primarily to decreases in the market for our consumer products.
- Increased revenues of $25.7 million for our Infrastructure products, due primarily to increased demand for our products and the sale of patents for $5.0 million.
- Decreased revenues of $21.1 million for our Access products, due primarily to decreased demand for our products and decreases in the market for such products.

Unit volumes of our products increased by 14.6% and average selling prices decreased by 6.2% compared to fiscal 2015. 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 2016	Fiscal Year 2015	Change
Gross margin	$ 421.5	$ 380.8	$ 40.7
Percent of revenue	60.4%	59.1%	1.3%

The increased dollar amount of gross margin in fiscal 2016 was due to increases in gross margin of $27.9 million for our Internet of Things products and $21.7 million for our Infrastructure products, offset by decreases in gross margin of $7.1 million for our Access products and $1.8 million for our Broadcast products. Gross margin in fiscal 2016 included $5.0 million from the sale of patents, which had no associated cost of revenues. Gross margin in fiscal 2015 included $2.6 million in acquisition-related charges for the fair value write-up associated with inventory acquired from Bluegiga and Telegesis.

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

Research and Development

(in millions)	Fiscal Year 2016	Fiscal Year 2015	Change	% Change
Research and development	$ 199.7	$ 188.1	$ 11.6	6.2%
Percent of revenue	28.6%	29.2%		

The increase in research and development expense in fiscal 2016 was primarily due to increases of (a) $5.9 million for personnel-related expenses, including costs associated with increased headcount, and (b) $4.4 million for new product introduction costs. We expect that research and development expense will increase in absolute dollars in the first quarter of 2017.

Selling, General and Administrative

(in millions)	Fiscal Year 2016	Fiscal Year 2015	Change	% Change
Selling, general and administrative	$ 155.5	$ 160.5	$ (5.0)	(3.1)%
Percent of revenue	22.3%	24.9%		

The decrease in selling, general and administrative expense in fiscal 2016 was primarily due to decreases of (a) $2.1 million for adjustments to the fair value of acquisition-related contingent consideration, (b) $1.3 million for personnel-related expenses, (c) $1.0 million for acquisition-related costs, and (d) $1.0 million for legal fees, primarily related to litigation. We expect that selling, general and administrative expense will remain relatively stable in absolute dollars in the first quarter of 2017.

Interest Income

Interest income in fiscal 2016 was $1.3 million compared to $0.7 million in fiscal 2015.

Interest Expense

Interest expense in fiscal 2016 was $2.6 million compared $2.8 million in fiscal 2015.

Other, Net

Other, net in fiscal 2016 was $(0.5) million compared to $0.1 million in fiscal 2015.

Provision for Income Taxes

(in millions)	Fiscal Year 2016	Fiscal Year 2015	Change
Provision for income taxes	$ 3.0	$ 0.7	$ 2.3
Effective tax rate	4.7%	2.2%	

The effective tax rate for fiscal 2016 increased from fiscal 2015 primarily due to fiscal 2015 including a net benefit resulting from a change in the tax accounting treatment of stock-based compensation in a cost-sharing arrangement following a U.S. Tax Court case (Altera). The increase in the effective tax rate was partially offset by a reduction in the prior period valuation allowance. See Note 16, *Income Taxes*, to the Consolidated Financial Statements for additional information.

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

Comparison of Fiscal 2015 to Fiscal 2014

Revenues

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

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

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

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

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

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

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

Gross Margin

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

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

Research and Development

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

The increase in research and development expense in fiscal 2015 was primarily due to increases of (a) $9.7 million for personnel-related expenses, including costs associated with increased headcount, and (b) $6.7 million for the amortization of intangible assets.

Selling, General and Administrative

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

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

Interest Income

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

Interest Expense

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

Other, Net

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

Provision for Income Taxes

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

The effective tax rate for fiscal 2015 decreased from fiscal 2014, primarily due to the completion of payments related to a prior year intercompany licensing arrangement resulting in an increase to the foreign tax rate benefit as well as the recognition of a net benefit resulting from a change in the tax accounting treatment of stock-based compensation in a cost-sharing arrangement following a U.S. Tax Court case (Altera). See Note 16, *Income Taxes*, to the Consolidated Financial Statements for additional information.

The decrease in the effective tax rate from the completion of payments related to a prior year intercompany licensing arrangement and the recognition of a net benefit from the Altera case, was partially offset by an increase in the prior year valuation allowance related to lower expectations of profitability in jurisdictions where tax attributes exist.

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

Business Outlook

We expect revenues in the first quarter of fiscal 2017 to be in the range of $174 to $179 million. Furthermore, we expect our diluted earnings per share to be in the range of $0.21 to $0.27.

Liquidity and Capital Resources

Our principal sources of liquidity as of December 31, 2016 consisted of $295.1 million in cash, cash equivalents and short-term investments, of which approximately $193.8 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, variable-rate demand notes, U.S. government bonds, asset-back securities, certificates of deposit, commercial paper and international government bonds. Our long-term investments consisted of auction-rate securities. As of December 31, 2016, we held $6.0 million par value auction-rate securities, all of which have experienced failed auctions because sell orders exceeded buy orders. See Note 4, *Fair Value of Financial Instruments*, to the Consolidated Financial Statements for additional information.

Operating Activities

Net cash provided by operating activities was $128.9 million during fiscal 2016, compared to net cash provided of $105.4 million during fiscal 2015. Operating cash flows during fiscal 2016 reflect our net income of $61.5 million, adjustments of $74.8 million for depreciation, amortization, stock-based compensation and deferred income taxes, and a net cash outflow of $7.4 million due to changes in our operating assets and liabilities.

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

Accounts receivable increased to $74.4 million at December 31, 2016 from $73.6 million at January 2, 2016. The increase in accounts receivable resulted primarily from normal variations in the timing of collections and billings. Our average DSO was 37 days at December 31, 2016 and 41 days at January 2, 2016.

Inventory increased to $59.6 million at December 31, 2016 from $53.9 million at January 2, 2016. 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 DOI was 73 days at December 31, 2016 and January 2, 2016.

Investing Activities

Net cash used in investing activities was $49.6 million during fiscal 2016, compared to net cash used of $49.3 million during fiscal 2015. The increase in cash outflows was principally due to an increase of $87.8 million in net purchases of marketable securities and an increase of $2.4 million for the purchase of other assets, offset by a decrease of $89.6 million in net payments for the acquisition of businesses. See Note 8, *Acquisitions*, to the Consolidated Financial Statements for additional information.

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

We anticipate capital expenditures of approximately $18 to $22 million for fiscal 2017. 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 $52.3 million during fiscal 2016, compared to net cash used of $83.8 million during fiscal 2015. The decrease in cash outflows was principally due to a decrease of $89.7 million in payments on debt and a decrease of $30.9 million for repurchases of our common stock, offset by $81.2 million in net proceeds from the issuance of long-term debt during fiscal 2015 and an increase of $5.0 million for payments of acquisition-related contingent consideration. In July 2015, we amended our Credit Agreement. In August 2015, the Board of Directors authorized a program to repurchase up to $100 million of our common stock through December 2016. In January 2017, the Board of Directors authorized a program to repurchase up to $100 million of our common stock through December 2017.

Net cash used in financing activities was $83.8 million during fiscal 2015, compared to net cash used of $65.2 million during fiscal 2014. The increase in cash outflows was principally due to an increase of $87.2 million in payments on debt and a decrease of $10.2 million from proceeds from the issuance of common stock, net of cash paid for withheld taxes, offset by net proceeds of $81.2 million from the issuance of long-term debt.

Debt

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

The Amended Credit Agreement includes a $25 million letter of credit sublimit and a $10 million swingline loan sublimit. We also have an option to increase the size of the borrowing capacity by up to an aggregate of $200 million in additional commitments, subject to certain conditions. See Note 10, *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 31, 2016 (in thousands):

	Payments due by period						
	Total	2017	2018	2019	2020	2021	Thereafter
Long-term debt obligations (1)	$ 72,500	$ —	$ —	$ —	$ 72,500	$ —	$ —
Interest on long-term debt obligations (2)	$ 7,873	$ 2,201	$ 2,219	$ 2,207	$ 1,246	$ —	$ —
Operating lease obligations (3)	$ 21,047	$ 5,139	$ 3,852	$ 2,700	$ 2,432	$ 2,286	$ 4,638
Purchase obligations (4)	$ 44,613	$ 44,613	$ —	$ —	$ —	$ —	$ —
Other long-term obligations (5)	$ 15,108	$ —	$ 4,976	$ 5,468	$ 4,664	$ —	$ —

(1) Long-term debt obligations represent the principal portion of our Credit Facilities.

(2) Interest on our long-term debt obligations is based on the Eurodollar Base Rate plus an applicable margin. We have entered into an interest rate swap agreement as a hedge against the Eurodollar portion of such variable interest payments and effectively converted the Eurodollar portion of the interest on the Credit Facilities to a fixed interest rate through July 2020. As of December 31, 2016, the combined interest rate on the Credit Facilities and the interest rate swap was 2.375%. The impact of the interest rate swap was factored into the calculation of the future interest payments on our long-term debt obligations through July 2020.

(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 primarily represent 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 $3.1 million for unrecognized tax benefits is not included in the table above. See Note 16, *Income Taxes,* to the Consolidated Financial Statements for additional information.

Off-Balance Sheet Arrangements

As of December 31, 2016, we had no significant off-balance sheet arrangements.

Critical Accounting Policies and Estimates

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

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

Stock-based compensation—We recognize the fair-value of stock-based compensation transactions in the Consolidated Statements of Income. The fair value of our full-value stock awards (with the exception of market-based performance awards) equals the fair market value of our stock on the date of grant. The fair value of our market-based performance awards is estimated at the date of grant using a Monte-Carlo simulation. The fair value of our stock option and employee stock purchase plan grants is estimated at the date of grant using the Black-Scholes option pricing model. In addition, we are required to estimate the expected forfeiture rate of our stock grants and only recognize the expense for those shares expected to vest. If our actual experience differs significantly from the assumptions used to compute our stock-based compensation cost, or if different assumptions had been used, we may have recorded too much or too little stock-based compensation cost. See Note 12, *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 income (loss).

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

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

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

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

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

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

Recent Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business.* This ASU clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This ASU is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. We are currently evaluating the effect that the adoption of this ASU will have on our financial statements.

In August 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory.* This ASU requires the recognition of the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This ASU is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods, with early adoption permitted. The amendments in this ASU should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. We have elected to early adopt this ASU on January 1, 2017. We currently expect to record a cumulative-effect adjustment to decrease retained earnings by between $0.0 and $2.5 million with a corresponding adjustment to non-current assets and deferred taxes on the Consolidated Balance Sheet.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This ASU provides guidance on statement of cash flows presentation for eight specific cash flow issues where diversity in practice exists. This ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. We are currently evaluating the effect that the adoption of this ASU will have on our financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326: Measurement of Credit Losses on Financial Instruments.* This ASU requires instruments measured at amortized cost to be presented at the net amount expected to be collected. Entities are also required to record allowances for available-for-sale debt securities rather than reduce the carrying amount. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. We are currently evaluating the effect that the adoption of this ASU will have on our financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.* This ASU simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This ASU is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. We expect the primary impact of this ASU to be the income tax effects of awards recognized in the income statement when the awards are vested or settled.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842).* The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. For operating leases, a lessee is required to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently evaluating the effect that the adoption of this ASU will have on our financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* This ASU addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We are currently evaluating the effect that the adoption of this ASU will have on our financial statements.

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

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements in Accounting Standards Codification (ASC) 605, *Revenue Recognition*. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides a five-step process to achieve that core principle. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which deferred the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. In 2016, the FASB issued the following amendments to ASC 606: ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, which clarifies the implementation guidance on principal versus agent considerations; ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing,* which clarifies guidance on identification of performance obligations and licensing implementation; ASU No. 2016-12, *Compensation—Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, which provides clarifying guidance on assessing collectibility, presentation of sales taxes, noncash consideration, contract modifications and completed contracts; and ASU No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*, which clarifies narrow aspects of ASC 606 or corrects unintended application of the guidance. The standard may be applied retrospectively to each prior period presented (full retrospective method) or retrospectively with the cumulative effect recognized as of the date of initial application (modified retrospective method). Under the new standard, we expect the timing of revenue recognition from sales to distributors to be accelerated. We will recognize revenue at the time of sale to the distributor, net of the impact of estimated price adjustments and rights of return. We currently anticipate adopting this standard using the modified retrospective method. We are continuing to evaluate the effect that the adoption will have on our financial statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest Income

Our investment portfolio includes cash, cash equivalents, short-term investments and long-term investments. Our main investment objectives are the preservation of investment capital and the maximization of after-tax returns on our investment portfolio. Our interest income is sensitive to changes in the general level of U.S. interest rates. Our investment portfolio holdings as of December 31, 2016 and January 2, 2016 yielded less than 100 basis points. A decline in yield to zero basis points on our investment portfolio holdings as of December 31, 2016 and January 2, 2016 would decrease our future annual interest income by approximately $1.9 million and $0.9 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.