SYNAPTICS Inc
Form 10-Q
May 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .

Commission file number 000-49602

SYNAPTICS INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware	77-0118518
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1251 McKay Drive

San Jose, California 95131

(Address of principal executive offices) (Zip code)

(408) 904-1100

(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of Common Stock outstanding at April 27, 2018: 34,614,153

SYNAPTICS INCORPORATED

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2018

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ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SYNAPTICS INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except par value and share amounts)

(unaudited)

	March 31, 2018	June 30, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$283.4	$367.8
Accounts receivable, net of allowances of $2.6 at March 31, 2018 and June 30, 2017	258.2	255.2
Inventories	108.5	131.4
Prepaid expenses and other current assets	16.0	37.6
Total current assets	666.1	792.0
Property and equipment at cost, net of accumulated depreciation of $129.1 and $106.8 at March 31, 2018 and June 30, 2017, respectively	118.7	113.8
Goodwill	404.2	206.8
Acquired intangibles, net	209.4	101.0
Non-current other assets	45.3	53.1
	$1,443.7	$1,266.7
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$132.1	$135.8
Accrued compensation	18.2	31.9
Income taxes payable	16.7	17.2
Acquisition-related liabilities	8.7	8.7
Other accrued liabilities	91.2	101.8
Current portion of long-term debt	-	15.0
Total current liabilities	266.9	310.4
Long-term debt, net of issuance costs	-	202.0
Convertible notes, net	446.5	-
Deferred tax liabilities	6.1	-
Other long-term liabilities	28.3	14.1
Total liabilities	747.8	526.5

Stockholders' Equity:		
Common stock:		
$0.001 par value; 120,000,000 shares authorized, 62,234,111 and 60,579,911 shares issued, and 34,594,235 and 34,638,435 shares outstanding, at March 31, 2018 and June 30, 2017, respectively	0.1	0.1
Additional paid-in capital	1,160.3	1,004.8
Treasury stock: 27,639,876 and 25,941,476 common treasury shares at March 31, 2018 and June 30, 2017, respectively, at cost	(1,073.9)	(980.3)
Accumulated other comprehensive income	1.5	1.5
Retained earnings	607.9	714.1
Total stockholders' equity	695.9	740.2
	$1,443.7	$1,266.7

See accompanying notes to condensed consolidated financial statements (unaudited).

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SYNAPTICS INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

(unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
Net revenue	$394.0	$444.2	$1,241.8	$1,291.7
Cost of revenue	271.1	309.5	889.3	894.9
Gross margin	122.9	134.7	352.5	396.8
Operating expenses:				
Research and development	93.7	71.6	273.0	218.5
Selling, general, and administrative	37.9	38.1	115.6	105.0
Acquired intangibles amortization	1.4	2.4	8.5	9.3
Restructuring	2.2	0.3	8.6	7.3
Litigation settlement charge	-	10.0	-	10.0
Total operating expenses	135.2	122.4	405.7	350.1
Operating income/(loss)	(12.3)	12.3	(53.2)	46.7
Interest and other expense, net	(4.7)	(1.5)	(15.4)	(1.8)
Income/(loss) before provision/(benefit) for income taxes and equity investment loss	(17.0)	10.8	(68.6)	44.9
Provision/(benefit) for income taxes	(3.9)	6.3	52.6	13.9
Equity investment loss	(0.6)	-	(1.4)	-
Net income/(loss)	$(13.7)	$4.5	$(122.6)	$31.0
Net income/(loss) per share:				
Basic	$(0.40)	$0.13	$(3.61)	$0.89
Diluted	$(0.40)	$0.13	$(3.61)	$0.87
Shares used in computing net income/(loss) per share:				
Basic	34.5	34.8	34.0	34.9
Diluted	34.5	35.4	34.0	35.7

See accompanying notes to condensed consolidated financial statements (unaudited).

SYNAPTICS INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

(in millions)

(unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
Net income/(loss)	$(13.7)	$4.5	$(122.6)	$31.0
Other comprehensive loss:				
Change in unrealized net loss on investments	-	-	-	(1.5)
Reclassification from accumulated other comprehensive income to interest income for accretion of non-current investments	-	-	-	(0.3)
Net current period-other comprehensive loss	-	-	-	(1.8)
Comprehensive income/(loss)	$(13.7)	$4.5	$(122.6)	$29.2

See accompanying notes to condensed consolidated financial statements (unaudited).

SYNAPTICS INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(unaudited)

	Nine Months Ended March 31,	
	2018	2017
Cash flows from operating activities		
Net income/(loss)	$(122.6)	$31.0
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Share-based compensation costs	53.1	46.3
Depreciation and amortization	28.6	25.0
Acquired intangibles amortization	62.0	45.2
Deferred taxes	16.8	(11.7)
Non-cash interest	-	(0.3)
Amortization of convertible debt discount and issuance costs	12.7	-
Amortization of debt issuance costs	1.5	0.8
Impairment recovery on investments	-	(1.9)
Equity investment loss	1.4	-
Foreign currency remeasurement loss	0.1	-
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable, net	8.2	6.0
Inventories	102.2	(10.6)
Prepaid expenses and other current assets	20.9	(25.6)
Other assets	(7.2)	4.9
Accounts payable	(15.9)	1.6
Accrued compensation	(15.4)	(10.6)
Acquisition-related liabilities	-	(16.8)
Income taxes payable	1.8	(0.2)
Other accrued liabilities	(11.1)	21.4
Net cash provided by operating activities	137.1	104.5
Cash flows from investing activities		
Acquisition of businesses, net of cash and cash equivalents acquired	(396.4)	-
Proceeds from sales of investments	-	7.5
Purchases of property and equipment	(27.5)	(26.1)
Purchase of intangible assets	(7.7)	-
Investment in direct financing lease	-	(15.8)
Net cash used in investing activities	(431.6)	(34.4)
Cash flows from financing activities		
Proceeds from issuance of convertible debt, net of issuance costs	514.5	-
Payment of debt	(220.0)	(15.0)
Purchases of treasury stock	(93.6)	(88.0)
Proceeds from issuance of shares	15.0	14.7
Payment of debt issuance costs	(1.1)	-

Excess tax benefit from share-based compensation	-	1.6
Payroll taxes for deferred stock and market stock units	(4.8)	(5.5)
Net cash provided by/(used in) financing activities	210.0	(92.2)
Effect of exchange rate changes on cash and cash equivalents	0.1	(1.0)
Net decrease in cash and cash equivalents	(84.4)	(23.1)
Cash and cash equivalents at beginning of period	367.8	352.2
Cash and cash equivalents at end of period	$283.4	$329.1
Supplemental disclosures of cash flow information		
Cash paid for taxes	$26.0	$21.5
Cash refund on taxes	$1.0	$10.0
Non-cash investing and financing activities:		
Purchases of property and equipment in current liabilities	$3.8	$2.5
Common stock issued pursuant to acquisition	$39.1	$-

See accompanying notes to condensed consolidated financial statements (unaudited)

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SYNAPTICS INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission, or the SEC, and U.S. generally accepted accounting principles, or U.S. GAAP. Certain information or footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to SEC rules and regulations. In our opinion, the financial statements include all adjustments, which are of a normal and recurring nature and necessary for the fair presentation of the results of the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the operating results for the full fiscal year or any future period. These financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended June 24, 2017.

The consolidated financial statements include our financial statements and those of our wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated upon consolidation.

Our fiscal year is the 52- or 53-week period ending on the last Saturday in June. Our fiscal 2018 is a 53-week period ending June 30, 2018, and our fiscal 2017 was a 52-week period ending on June 24, 2017. The fiscal periods presented in this report are 13-week and 40-week periods for the three and nine months ended March 31, 2018, respectively, and 13-week and 39-week periods for the three and nine months ended March 25, 2017, respectively. For simplicity, the accompanying condensed consolidated financial statements have been shown as ending on calendar quarter end dates as of and for all periods presented, unless otherwise indicated.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, allowance for doubtful accounts, cost of revenue, inventories, loss on purchase commitments, product warranty, accrued liabilities, share-based compensation costs, provision for income taxes, deferred income tax asset valuation allowances, uncertain tax positions, goodwill, intangible assets, investments, contingent consideration liability and loss contingencies. We base our estimates on historical experience, applicable laws and regulations, and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Foreign Currency Transactions and Foreign Exchange Contracts

The U.S. dollar is our functional and reporting currency. We remeasure our monetary assets and liabilities not denominated in the functional currency into U.S. dollar equivalents at the rate of exchange in effect on the balance sheet date. We measure and record non-monetary balance sheet accounts at the historical rate in effect at the date of transaction. We remeasure foreign currency expenses at the weighted average exchange rate in the month that the transaction occurred. Our foreign currency transactions and remeasurement gains and losses are included in selling, general, and administrative expenses in the condensed consolidated statements of operations, and resulted in net losses of $0.3 million and $0.8 million in the three and nine months ended March 31, 2018 and net losses of $0.4 million in the three and nine months ended March 31, 2017.

2. Revenue Recognition

We recognize revenue from product sales when there is persuasive evidence that an arrangement exists, delivery has occurred and title has transferred, the price is fixed or determinable, and collection is reasonably assured. We accrue for estimated sales returns, incentives, and other allowances at the time we recognize revenue. Our products contain embedded firmware and software, which together with, or consisting of, our ASIC chip, deliver the essential functionality of our products and, as such, software revenue recognition guidance is not applicable. The majority of our sales to distributors are made under agreements that generally do not provide for price adjustments after purchase and revenue recognition and provide for only limited return rights under product warranty. Revenue on these sales is recognized in the same manner as sales to our non-distributor customers. Some of our sales are to distributors which have limited stock rotation rights, which allow them to rotate a small portion of product in their inventory a maximum of two times per year. We recognize revenue to these distributors upon shipment of product to the distributor, as the stock rotation rights are limited and we can reasonably estimate expected product returns when right of return exists. When sales rebates, price allowances and stock rotations are applicable, they are estimated and recorded in the period the related revenue is recognized.

3. Net Income Per Share

The computation of basic and diluted net income per share was as follows (in millions, except per share data):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
Numerator:				
Net income/(loss)	$(13.7)	$4.5	$(122.6)	$31.0
Denominator:				
Shares, basic	34.5	34.8	34.0	34.9
Effect of dilutive share-based awards	-	0.6	-	0.8
Shares, diluted	34.5	35.4	34.0	35.7
Net income/(loss) per share:				
Basic	$(0.40)	$0.13	$(3.61)	$0.89
Diluted	$(0.40)	$0.13	$(3.61)	$0.87

Our basic net income per share amounts for each period presented have been computed using the weighted average number of shares of common stock outstanding over the period measured. Our diluted net income per share amounts for each period presented include the weighted average effect of potentially dilutive shares. We use the “treasury stock” method to determine the dilutive effect of our stock options, deferred stock units, or DSUs, market stock units, or MSUs, performance stock units, or PSUs, and our convertible notes.

Dilutive net income per share amounts do not include the potential weighted average effect of 2,818,358 and 2,380,552 shares of common stock related to certain share-based awards that were outstanding during the three months ended March 31, 2018 and 2017, respectively, and 2,427,566 and 1,739,783 shares of common stock related to certain share-based awards that were outstanding during the nine months ended March 31, 2018, and 2017, respectively. These share-based awards were not included in the computation of diluted net income per share because their effect would have been antidilutive.

4. Fair Value

Financial assets measured at fair value on a recurring basis by level within the fair value hierarchy, consisted of the following (in millions):

	March 31, 2018			June 30, 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3

Assets:						
Money market funds	$259.0	$ -	$ -	$361.7	$ -	$ -
Auction rate securities	-	-	1.5	-	-	1.5
Total available-for-sale securities	$259.0	$ -	$ 1.5	$361.7	$ -	$ 1.5

In our condensed consolidated balance sheets, as of March 31, 2018 and June 30, 2017, money market balances were included in cash and cash equivalents, and auction rate securities, or ARS investments, were included in non-current other assets.

There were no changes in fair value of our Level 3 financial assets during the nine months ended March 31, 2018. There were no transfers in or out of our Level 1, 2, or 3 assets during the nine months ended March 31, 2018 and 2017.

The fair values of our accounts receivable and accounts payable approximate their carrying values because of the short-term nature of those instruments. Intangible assets, property and equipment, and goodwill are measured at fair value on a non-recurring basis if impairment is indicated.

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5. Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or net realizable value and consisted of the following (in millions):

	March 31, 2018	June 30, 2017
Raw materials and work-in-progress	$71.4	$94.7
Finished goods	37.1	36.7
	$108.5	$131.4

We record a write-down, if necessary, to reduce the carrying value of inventory to its net realizable value. The effect of these write-downs is to establish a new cost basis in the related inventory, which we do not subsequently write up. We also record a liability and charge to cost of revenue for estimated losses on inventory we are obligated to purchase from our contract manufacturers when such losses become probable from customer delays, order cancellations, or other factors.

6. Acquisitions

Conexant

On June 11, 2017, we entered into a securities purchase agreement to acquire all of the outstanding limited liability company interests of Conexant Systems, LLC, or Conexant, a technology leader in voice and audio processing solutions for the smart home, or the Conexant Acquisition. The Conexant Acquisition is intended to increase our presence in the smart home market and increase opportunities to grow revenue. Effective July 25, 2017, or the Conexant Closing Date, we completed the Conexant Acquisition for an initial purchase price of (i) $305.4 million in cash (on a cash-free, debt-free basis) and (ii) 726,666 shares of our common stock, or the Stock Consideration, valued at $39.1 million, and (iii) the assumption of a $3.5 million stock appreciation rights liability, with $16.8 million of the purchase price held in escrow to secure the seller’s indemnification obligations under the purchase agreement and $7.0 million of the purchase price held in escrow to secure the seller’s adjustment escrow obligations under the purchase agreement. Subsequently, we determined that $1.8 million of net adjustments to the purchase price were required, reducing the acquisition date fair value of the consideration transferred to a total of $346.2 million. The Stock Consideration was issued at closing in an exempt private placement. On August 4, 2017, we filed a shelf registration statement on Form S-3 with the SEC providing for the registered resale of the Stock Consideration.

The acquisition has been accounted for using the purchase method of accounting in accordance with the business acquisition guidance. Under the purchase accounting method, the total estimated purchase consideration of the acquisition was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their relative fair values. The excess of the purchase consideration over the net tangible and identifiable intangible assets acquired and liabilities has been recorded as goodwill. Our estimate of the fair values of the acquired intangible assets at March 31, 2018, is preliminary and subject to change and is based on established and accepted valuation techniques performed with the assistance of our third-party valuation specialists. Additional information, which existed as of the Conexant Closing Date but is yet unknown to us, may become known to us during the remainder of the measurement period, which will not exceed 12 months from the Conexant Closing Date. Changes to amounts recorded as inventory, other current assets, acquired intangible assets and other accrued liabilities will be recorded as adjustments to the provisional amounts recognized as of the Conexant Closing Date and may result in a corresponding adjustment to goodwill in the period in which new information becomes available.

The following table summarizes the provisional amounts recorded for the estimated fair values of the assets acquired and liabilities assumed as of the Conexant Closing Date (in millions):

Cash	$4.3
Accounts receivable	11.7
Inventory	51.0
Other current assets	3.5
Property and equipment	3.2
Acquired intangible assets	116.9
Other assets	0.9
Total identifiable assets acquired	191.5
Accounts payable	14.2
Accrued compensation	1.3
Other accrued liabilities	9.0
Other long-term liabilities	3.0
Net identifiable assets acquired	164.0
Goodwill	182.2
Net assets acquired	$346.2

As of September 30, 2017, and December 30, 2017, the preliminary estimate of the intangible assets was $152.5 million. As of March 31, 2018, we have revised our preliminary estimate of the intangible assets to $116.9 million which resulted in a $35.6 million reduction to the intangible assets and a corresponding increase to goodwill. As a result, a $2.2 million increase in operating income/(loss) related to the six months ended December 30, 2017, was recognized in the condensed consolidated statement of operations for the three months ended March 31, 2018. The change in operating income/(loss) was primarily attributed to a decrease of $0.9 million to cost of revenue related to the amortization of acquired intangible assets and a decrease of $1.3 million in operating expenses related to the amortization of acquired intangible assets.

The revised preliminary estimate of the intangible assets as of March 31, 2018, totaling $116.9 million included the following: $93.2 million was allocated to developed technology and will amortize over an estimated weighted average useful life of 5 years; $21.7 million was allocated to customer relationships and will be amortized over an estimated useful life of 4 years, $1.7 million was allocated to trademarks and will be amortized over an estimated useful life of 7 years; and $0.3 million was allocated to backlog and will be amortized over an estimated useful life of less than 1 year. Developed technology consists of semiconductor system solutions for audio and imaging applications. We preliminarily estimated the fair value of the identified intangible assets using a discounted cash flow model for each of the underlying identified intangible assets. These fair value measurements were based on significant inputs not observable in the market and thus represent a Level 3 measurement. Key assumptions include the level and timing of expected future cash flows, conditions and demands specific to each intangible asset over its remaining useful life, and discount rates we believe to be consistent with the inherent risks associated with each type of asset, which range from 8% to 12%. The fair value of these intangible assets is primarily affected by the projected income and the anticipated timing of the projected income associated with each intangible asset coupled with the discount rates used to derive their estimated present values. We believe the level and timing of expected future cash flows appropriately reflects market participant assumptions.

The value of goodwill reflects the anticipated synergies of the combined operations and workforce of Conexant as of the Conexant Closing Date.

As of March 31, 2018, all of the goodwill is expected to be deductible for income tax purposes.

Prior to the Conexant Acquisition, we did not have an existing relationship or transactions with Conexant.

The condensed consolidated financial statements include approximately $87.8 million of revenue and approximately $34.7 million of operating loss from Conexant from the Conexant Closing Date through March 31, 2018.

The following unaudited pro forma financial information (in millions, except per share data) presents the combined results of operations for us and Conexant as if the Conexant Acquisition had occurred on June 30, 2016. The unaudited pro forma financial information has been prepared for comparative purposes only and does not purport to be indicative of the actual operating results that would have been recorded had the Conexant Acquisition actually taken place on June 30, 2016, and should not be taken as indicative of future consolidated operating results. Additionally, the unaudited pro forma financial results do not include any anticipated synergies or other expected benefits from the Conexant Acquisition.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
Revenue	$394.0	$469.1	$1,249.9	$1,372.0
Net income/(loss)	(13.8)	(0.4)	(122.4)	19.8
Net income/(loss) per share	(0.40)	(0.01)	(3.60)	0.57

Pro forma adjustments used to arrive at pro forma net income for the three and nine months ended March 31, 2018, and 2017, were as follows (in millions):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
Buyer transaction costs	$-	$-	$0.9	$-
Interest expense	-	(4.5)	-	(13.6)
Intangible amortization	-	(6.1)	(1.7)	(16.5)
Depreciation	(0.2)	(0.2)	(0.3)	(0.7)
Income tax adjustment	0.1	3.8	0.3	10.8
Total	$(0.1)	$(7.0)	$(0.8)	$(20.0)

Marvell Multimedia Solutions Business

On June 11, 2017, the Company entered into an asset purchase agreement to acquire the assets of the multimedia solutions business of Marvell Technology Group Ltd., or Marvell, a leading provider of advanced video and audio processing applications for the smart home, or the Marvell Business Acquisition. The Marvell Business Acquisition is also intended to increase our presence in the smart home market and increase opportunities to grow revenue. Effective September 8, 2017, or the Marvell Closing Date, we completed the Marvell Business Acquisition for a purchase price of $93.7 million in cash.

The acquisition has been accounted for using the purchase method of accounting in accordance with the business acquisition guidance. Under the purchase accounting method, the total estimated purchase consideration of the acquisition was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their relative fair values. The excess of the purchase consideration over the net tangible and identifiable intangible assets acquired and liabilities has been recorded as goodwill. Our estimate of the fair values of the acquired intangible assets at March 31, 2018, is preliminary and subject to change and is based on established and accepted valuation techniques performed with the assistance of our third-party valuation specialists. Additional information, which existed as of the Marvell Closing Date but is yet unknown to us, may become known to us during the remainder of the measurement period, which will not exceed 12 months from the Marvell Closing Date. Changes to amounts recorded as inventory and acquired intangible assets will be recorded as adjustments to the provisional amounts recognized as of the Marvell Closing Date and may result in a corresponding adjustment to goodwill in the period in which new information becomes available.

The following table summarizes the provisional amounts recorded for the estimated fair values of the assets acquired and liabilities assumed as of the Marvell Business Acquisition date (in millions):

Inventory	$28.4
Property and equipment	5.0
Acquired intangible assets	45.7
Total identifiable assets acquired	79.1
Accrued liabilities	0.7
Net identifiable assets acquired	78.4
Goodwill	15.3
Net assets acquired	$93.7

Of the $45.7 million of acquired intangible assets, $24.9 million was allocated to developed technology and will be amortized over an estimated weighted average useful life of 4 years; $16.2 million was allocated to customer relationships and will be amortized

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over an estimated useful life of 4 years, $1.0 million was allocated to backlog and will be amortized over an estimated useful life of less than 1 year; and $3.6 million was allocated to in-process research and development and will be amortized over an estimated useful life to be determined at the date the underlying projects are deemed to be substantively complete. Developed technology consists of semiconductor system solutions for advanced video and audio processing applications. We preliminarily estimated the fair value of the identified intangible assets using a discounted cash flow model for each of the underlying identified intangible assets. These fair value measurements were based on significant inputs not observable in the market and thus represent a Level 3 measurement. Key assumptions include the level and timing of expected future cash flows, conditions and demands specific to each intangible asset over its remaining useful life, and discount rates we believe to be consistent with the inherent risks associated with each type of asset, which range from 9% to 19%. The fair value of these intangible assets is primarily affected by the projected income and the anticipated timing of the projected income associated with each intangible asset coupled with the discount rates used to derive their estimated present values. We believe the level and timing of expected future cash flows appropriately reflects market participant assumptions.

The value of goodwill reflects the anticipated synergies of the combined operations and workforce of the transferred Marvell Business assets as of the Marvell Closing Date.

As of March 31, 2018, all of the goodwill is expected to be deductible for income tax purposes.

Prior to the Marvell Business Acquisition, we did not have an existing relationship or transactions with Marvell.

The condensed consolidated financial statements include approximately $98.1 million of revenue and approximately $12.7 million of operating loss from Marvell from the Marvell Closing Date through March 31, 2018.

The following unaudited pro forma financial information (in millions, except per share data) presents the combined results of operations for us and Marvell as if the Marvell Business Acquisition had occurred on June 30, 2016. The unaudited pro forma financial information has been prepared for comparative purposes only and does not purport to be indicative of the actual operating results that would have been recorded had the Marvell Business Acquisition actually taken place on June 30, 2016, and should not be taken as indicative of future consolidated operating results. Additionally, the unaudited pro forma financial results do not include any anticipated synergies or other expected benefits from the Marvell Business Acquisition. As the Marvell Business Acquisition was an asset acquisition and only a portion of Marvell Multimedia Solutions Business was acquired, the unaudited pro forma financial information has been prepared using certain estimates.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
Revenue	$394.0	$469.1	$1,345.2	$1,367.1
Net income/(loss)	(13.7)	15.0	(121.3)	19.8
Net income/(loss) per share	(0.40)	0.45	(3.57)	0.58

Pro forma adjustments used to arrive at pro forma net loss for the three and nine months ended March 31, 2018 and 2017, were as follows (in millions):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
Buyer transaction costs	$-	$-	$1.1	$-
Interest expense	-	(4.9)	-	(14.7)
Intangible amortization	-	(5.6)	(1.2)	(7.3)
Income tax adjustment	-	3.7	-	7.7
Total	$-	$(6.8)	$(0.1)	$(14.3)

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7. Acquired Intangibles and Goodwill

Acquired Intangibles

The following table summarizes the life, the gross carrying value and the related accumulated amortization of our acquired intangible assets as of March 31, 2018 and June 30, 2017 (in millions):

	Weighted Average Life in Years	March 31, 2018	June 30, 2017
Display driver technology	5.3	$164.0	$164.0
Audio and video technology	4.7	118.2	-
Customer relationships	3.6	66.2	48.4
Fingerprint authentication technology	4.0	55.7	63.5
Licensed technology and other	4.3	9.0	1.3
Tradename	7.0	1.7	-
Patents	7.7	4.6	4.8
Backlog	0.5	1.3	-
In-process research and development	Not applicable	3.6	-
Acquired intangibles, gross	4.6	424.3	282.0
Accumulated amortization		(214.9)	(181.0)
Acquired intangibles, net		$209.4	$101.0

The total amortization expense for the acquired intangible assets was $18.7 million and $14.0 million for the three months ended March 31, 2018 and 2017, respectively, and $62.0 million and $45.2 million for the nine months ended March 31, 2018 and 2017, respectively. During the three months ended March 31, 2018 and 2017, $17.2 million and $11.7 million, respectively, and $53.4 million and $35.9 million for the nine months ended March 31, 2018 and 2017, respectively, of amortization expense was included in our condensed consolidated statements of operations in cost of revenue; the remainder was included in acquired intangibles amortization.

The following table presents expected annual fiscal year aggregate amortization expense as of March 31, 2018 (in millions):

Remainder of 2018	$20.9
2019	71.7
2020	48.2
2021	35.3
2022	25.8
2023	3.2
Thereafter	0.7
To be determined	3.6
Future amortization	$209.4

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net tangible and identifiable intangible assets acquired. Changes in our goodwill balance for the nine months ended March 31, 2018 were as follows (in millions):

Beginning balance	$206.8
Acquisition activity	157.3
Post-acquisition adjustments	40.1
Ending balance	$404.2

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8. Other Accrued Liabilities

Other accrued liabilities consisted of the following (in millions):

	March 31, 2018	June 30, 2017
Customer obligations	$ 30.9	$ 34.8
Inventory obligations	27.0	41.8
Warranty	6.5	4.4
Other	26.8	20.8
	$ 91.2	$ 101.8

9. Indemnifications, Contingencies and Legal Proceedings

Indemnifications

In connection with certain agreements, we are obligated to indemnify the counterparty against third party claims alleging infringement of certain intellectual property rights by us. We have also entered into indemnification agreements with our officers and directors. Maximum potential future payments under these agreements cannot be estimated because these agreements do not have a maximum stated liability. However, historical costs related to these indemnification provisions have not been significant. We have not recorded any liability in our condensed consolidated financial statements for such indemnification obligations.

Contingencies

We have in the past, and may in the future receive notices from third parties that claim our products infringe their intellectual property rights. We cannot be certain that our technologies and products do not and will not infringe issued patents or other proprietary rights of third parties.

Any infringement claims, with or without merit, could result in significant litigation costs and diversion of management and financial resources, including the payment of damages, which could have a material adverse effect on our business, financial condition, and results of operations.

Legal Proceedings

In October 2015, Amkor Technology, or Amkor, filed a complaint against us alleging infringement of intellectual property rights and various other claims. In November 2015, we filed an indemnification claim against the former stockholders and option holders of Validity Sensors, Inc., or Validity, to secure our rights under the Agreement and Plan of Reorganization between us and Validity (the “Validity Agreement”). Pursuant to the Validity Agreement, we believe we can offset costs, damages and settlements incurred in connection with our defense and resolution of the complaint with Amkor against the contingent consideration earnout balance of $8.7 million and have classified the reserve balance as a current acquisition-related liability in our condensed consolidated balance sheet. In April 2017, we agreed to settle this case with Amkor on undisclosed terms that include each party licensing and assigning certain intellectual property rights, and cash payments. Settlement costs incurred in connection with this litigation have been recorded in our condensed consolidated financial statements in fiscal 2017 and all but an immaterial amount was paid during our fiscal 2017. The indemnification claim against the former stockholders and option holders of Validity is in arbitration and remains outstanding.

10. Debt

Convertible Debt

On June 20, 2017, we entered into a purchase agreement, or the Purchase Agreement, with Wells Fargo Securities, LLC, as representative of the initial purchasers named therein, or collectively, the Initial Purchasers, pursuant to which we agreed to issue and sell, and the Initial Purchasers agreed to purchase, $500 million aggregate principal amount of our 0.50% convertible senior notes due 2022, or the Notes, in a private placement transaction. Pursuant to the Purchase Agreement, we also granted the Initial Purchasers a 30-day option to purchase up to an additional $25 million aggregate principal amount of Notes, which was exercised in full on June 21, 2017. The net proceeds, after deducting the Initial Purchasers' discounts, were $514.5 million, which includes proceeds from the Initial Purchasers' exercise of their option to purchase additional Notes. We received the net proceeds on June 26, 2017, which we used to repurchase 1,698,400 shares of our common stock, to retire our outstanding bank debt, and to provide additional cash resources to fund the Conexant and Marvell Business Acquisitions.

The Notes bear interest at a rate of 0.50% per year. Interest accrued from June 26, 2017 and is payable semi-annually in arrears, on June 15 and December 15 of each year, beginning on December 15, 2017. The Notes are senior unsecured obligations and rank senior in right of payment to any of our indebtedness that is expressly subordinated in right of payment to the Notes; equal in right of payment to any our liabilities that are not so subordinated; effectively junior in right of payment to any of our secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities (including trade payables) of our subsidiaries.

The Notes mature on June 15, 2022, or the Maturity Date, unless earlier repurchased, redeemed or converted.

Holders may convert all or any portion of their Notes, in multiples of $1,000 principal amounts, at their option at any time prior to the close of business on the business day immediately preceding March 15, 2022 under certain defined circumstances.

On or after March 15, 2022 until the close of business on the business day immediately preceding the Maturity Date, holders may convert all or any portion of their Notes, in multiples of $1,000 principal amounts, at the option of the holder. Upon conversion, we will pay or deliver, at our election, shares of common stock, cash, or a combination of cash and shares of common stock.

The conversion rate for the Notes is initially 13.6947 shares of common stock per $1,000 principal amount of Notes (equivalent to an initial conversion price of approximately $73.02 per share of common stock). The conversion rate is subject to adjustment in certain circumstances.

Upon the occurrence of a fundamental change (as defined in the Notes indenture), holders of the Notes may require us to repurchase for cash all or a portion of their Notes at a fundamental change repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest up to, but excluding, the fundamental change repurchase date.

We may not redeem the Notes prior to June 20, 2020. We may redeem for cash all or any portion of the Notes, at our option, on or after June 20, 2020, if the last reported sale price of our common stock, as determined by us, has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which we provide notice of redemption at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest up to, but excluding, the redemption date. Our policy is to settle the principal amount of our Notes with cash upon conversion or redemption.

As of the issuance date of the Notes, we recorded $82.1 million of the principal amount to equity, representing the debt discount for the difference between our estimated nonconvertible debt borrowing rate of 4.39% and the coupon rate of the Notes of 0.50% using a five-year life, which coincides with the term of the Notes. In addition, we allocated the total of $11.1 million of debt issuance costs, consisting of the Initial Purchaser's discount of $10.5 million and legal, accounting, and printing costs of $579,000, pro rata, to the equity and debt components of the Notes, or $1.9 million and $9.2 million, respectively. The debt discount and the debt issuance costs allocated to the debt component are amortized as interest expense using the effective interest method over five years.

The contractual interest expense and amortization of discount on the Notes for the nine months ended March 31, 2018, were as follows (in millions):

	Nine Months

	Ended March 31, 2018
Interest expense	$ 2.0
Amortization of discount and debt issuance costs	12.7
Total interest	$ 14.7

The unamortized amounts of the debt issuance costs and discount associated with the Notes as of March 31, 2018 were $7.9 million and $70.7 million, respectively.

Revolving Credit Facility and Term Loan Arrangement

At the end of fiscal 2017, we had $220.0 million principal outstanding under our credit agreement (as discussed in the notes to consolidated financial statements included in our Form 10-K filed for the year ended June 24, 2017) consisting of $100.0 million under our revolving credit facility and $120.0 million under our term loan arrangement. At the beginning of fiscal 2018, we issued $525.0 million principal amount of convertible senior notes, or the Notes, and utilized a portion of the proceeds from our Notes to retire the outstanding principal and interest balances on our revolving credit facility and our term loan arrangement. At the end of July 2017, we made an election to reduce the commitment under the revolving credit facility from $450.0 million to $250.0 million as we were able to complete the Conexant Acquisition with available cash.

In September 2017, we entered into an Amendment and Restatement Agreement, or the Agreement, with the lenders that are party thereto, or the Lenders, and Wells Fargo Bank, National Association, as administrative agent for the Lenders. The Agreement terminated our term loan arrangement and provides for a revolving credit facility in a principal amount of up to $200 million, which includes a $20 million sublimit for letters of credit and a $20 million sublimit for swingline loans. Under the terms of the Agreement, we may, subject to the satisfaction of certain conditions, request increases in the revolving credit facility commitments in an aggregate principal amount of up to $100 million to the extent existing or new lenders agree to provide such increased or additional commitments, as applicable. Proceeds under the revolving credit facility are available for working capital and general corporate purposes. As of March 31, 2018, there is no balance outstanding under the revolving credit facility. As a result of terminating our term loan arrangement, we expensed the remaining debt issuance costs attributable to the term loan of $1.0 million during the first quarter of fiscal 2018.

The revolving credit facility is required to be repaid in full on the earlier of (i) September 27, 2022 and (ii) the date 91 days prior to the Maturity Date of the Notes if the Notes have not been refinanced in full by such date. Debt issuance costs of $2.3 million will be amortized over 60 months.

Our obligations under the Agreement are guaranteed by the material domestic subsidiaries of our company, subject to certain exceptions (such material subsidiaries, together with our company, collectively, the Credit Parties). The obligations of the Credit Parties under the Agreement and the other loan documents delivered in connection therewith are secured by a first priority security interest in substantially all of the existing and future personal property of the Credit Parties, including, without limitation, 65% of the voting capital stock of certain of the Credit Parties' direct foreign subsidiaries, subject to certain exceptions.

The revolving credit facility bears interest at our election of a Base Rate plus an Applicable Margin or LIBOR plus an Applicable Margin. Swingline loans bear interest at a Base Rate plus an Applicable Margin. The Base Rate is a floating rate that is the greater of the Prime Rate, the Federal Funds Rate plus 50 basis points, or LIBOR plus 100 basis points. The Applicable Margin is based on a sliding scale which ranges from 0.25 to 100 basis points for Base Rate loans and 100 basis points to 175 basis points for LIBOR loans. We are required to pay a commitment fee on any unused commitments under the Agreement which is determined on a leverage-based sliding scale ranging from 0.175% to 0.25% per annum. Interest and fees are payable on a quarterly basis. There is no balance outstanding under the revolving credit facility.

Under the Agreement, there are various restrictive covenants, including three financial covenants which limit the consolidated total leverage ratio, or leverage ratio, the consolidated interest coverage ratio, or interest coverage ratio, a restriction which places a limit on the amount of capital expenditures that may be made in any fiscal year, a restriction that permits up to $50 million per fiscal quarter of accounts receivable financings, and sets the Specified Leverage Ratio. The leverage ratio is the ratio of debt as of the measurement date to earnings before interest, taxes, depreciation and amortization, or EBITDA, for the four consecutive quarters ending with the quarter of measurement. The current leverage ratio shall not exceed 3.50 to 1.00 provided that for the four fiscal quarters ending after the date of a material acquisition, such maximum leverage ratio shall be adjusted to 3.75 to 1.00, and thereafter, shall not be more than 3.50 to 1.00. The interest coverage ratio is EBITDA to interest expense for the four consecutive quarters ending with the quarter of measurement. The interest coverage ratio must not be less than 3.50 to 1.0 during the term of the Agreement. The Specified Leverage Ratio is the ratio used in determining, among other things, whether we are permitted to make dividends and/or prepay certain indebtedness, at a fixed ratio of 3.00 to 1.00. As of the end of the quarter, we were in compliance with the restrictive covenants.

11. Share-Based Compensation

During the three months ended September 30, 2017, we adopted the accounting standard update, or ASU, for Compensation-Stock Compensation which was issued by the Financial Accounting Standards Board, or FASB. This update simplifies several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. Upon adoption of this ASU, we elected to change our accounting policy to account for forfeitures as they occur and we applied the accounting policy change on a modified retrospective basis. As a result of the adoption of this ASU, we recognized the net cumulative effect of this change as a $24.7 million increase to retained earnings, a $1.0 million increase to additional paid-in capital and established an additional $25.7 million of deferred tax assets for research credit and alternative minimum tax credit carryforwards. We have reflected excess tax benefits for share-based payments in the statement of cash flows as operating activities rather than financing activities on a prospective basis and therefore prior periods have not been adjusted.

Share-based compensation and the related tax benefit recognized in our condensed consolidated statements of operations were as follows (in millions):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
Cost of revenue	$0.9	$0.6	$2.3	$1.7
Research and development	10.0	8.7	28.9	25.0
Selling, general, and administrative	7.9	6.8	21.9	19.6
Total	$18.8	$16.1	$53.1	$46.3
Income tax benefit on share-based compensation	$3.4	$4.1	$6.1	$12.1

Historically, we have issued new shares in connection with our share-based compensation plans, however, treasury shares are also available for issuance. Any additional shares repurchased under our common stock repurchase program will be available for issuance under our share-based compensation plans.

Stock Options

Stock option activity, including stock options granted, exercised, and forfeited, weighted average exercise prices for stock options outstanding and exercisable, and the aggregate intrinsic value were as follows:

	Stock Option Awards Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value (in millions)
Balance as of June 30, 2017	2,490,168	$ 49.20	
Granted	61,825	45.32	
Exercised	(359,541)	22.87	
Forfeited	(180,812)	64.39	
Balance as of March 31, 2018	2,011,640	52.42	$ 13.3
Exercisable at March 31, 2018	1,702,535	51.07	$ 13.3

The aggregate intrinsic value was determined using the closing price of our common stock on March 29, 2018 of $45.73 and excludes the impact of stock options that were not in-the-money.

Deferred Stock Units

DSU activity, including DSUs granted, delivered, and forfeited, and the balance and aggregate intrinsic value of DSUs were as follows:

	DSU Awards Outstanding	Aggregate Intrinsic Value (in millions)
Balance as of June 30, 2017	1,320,798	
Granted	1,291,303	
Delivered	(480,778)	
Forfeited	(205,364)	
Balance as of March 31, 2018	1,925,959	$ 88.1

The aggregate intrinsic value was determined using the closing price of our common stock on March 29, 2018 of $45.73.

Of the shares delivered, 123,583 shares valued at $4.8 million were withheld to meet statutory tax withholding requirements.

Market Stock Units

Our Amended and Restated 2010 Incentive Compensation Plan provides for the grant of MSU awards to our employees, consultants, and directors. An MSU is a promise to deliver shares of our common stock at a future date based on the achievement of market-based performance requirements in accordance with the terms of the MSU grant agreement.

We have granted MSUs to our executive officers and other management members, which are designed to vest in three tranches with the target quantity for each tranche equal to one-third of the total MSU grant. The first tranche vests based on a one-year performance period; the second tranche vests based on a two-year performance period; and the third tranche vests based on a three-year performance period. Performance is measured based on the achievement of a specified level of total stockholder return, or TSR, relative to the TSR of the S&P Semiconductor Select Industry Index, or SPSISC Index for grants beginning in fiscal 2018 and relative to the Philadelphia Semiconductor Index, or SOX Index, for grants made prior to fiscal 2018. The potential payout ranges from 0% to 200% of the grant target quantity and is adjusted on a two-to-one ratio based on our TSR performance relative to the SPSISC Index TSR or SOX Index TSR using the following formula:

(100% + ([Synaptics TSR — {SPSISC Index TSR or SOX Index TSR}] x 2))

The payout for the first tranche and the second tranche will not exceed 100% and the payout for the third tranche will be calculated based on the total target quantity for the entire grant multiplied by the payout factor, based on performance for the three-year performance period, which will then be reduced by shares issued for the first tranche and the second tranche.

Delivery of shares earned, if any, will take place on the dates provided in the applicable MSU grant agreement, assuming the grantee is still an employee, consultant, or director of our company at the end of the applicable performance period. On the delivery date, we withhold shares to cover statutory tax withholding requirements and deliver a net quantity of shares to the employee, consultant, or director after such withholding. Until delivery of shares, the grantee has no rights as a stockholder with respect to any shares underlying the MSU award.

During the nine months ended March 31, 2018, MSU activity, including MSUs granted, delivered, and forfeited, and the balance and aggregate intrinsic value of MSUs as of March 31, 2018 was as follows:

	MSU Awards Outstanding	Aggregate Intrinsic Value (in millions)
Balance as of June 30, 2017	158,596	
Granted		