SYNAPTICS INC
Form S-3/A
March 31, 2005

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As filed with the Securities and Exchange Commission on March 31, 2005

Registration No. 333-122348

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1
to

FORM S-3

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

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 Number)*

2381 Bering Drive

San Jose, California 95131
(408) 434-0110

(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)

Francis F. Lee

President and
Chief Executive Officer
2381 Bering Drive
San Jose, California 95131
(408) 434-0110

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Robert S. Kant, Esq.

Brian H. Blaney, Esq.
Greenberg Traurig, LLP
2375 East Camelback Road, Suite 700

Phoenix, Arizona 85016
(602) 445-8000

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MARCH 31, 2005

PROSPECTUS

$125,000,000

0.75% Convertible Senior Subordinated Notes due 2024

and the Common Stock Issuable Upon Conversion of the Notes

We sold $100 million aggregate principal amount of our 0.75% Convertible Senior Subordinated Notes due 2024 on December 7, 2004 and an additional $25 million aggregate principal amount of the notes on December 17, 2004 in private placements. Selling securityholders may use this prospectus to resell from time to time their notes and the shares of common stock issuable upon conversion of the notes. We will not receive any of the proceeds from this offering.

We will pay interest on the notes on June 1 and December 1 of each year, beginning on June 1, 2005. Beginning on December 1, 2009, we will pay additional contingent interest on the notes if the average trading price of the notes is above a specified level during a specified period, as described in this prospectus.

The notes are convertible into shares of our common stock in accordance with the terms and conditions of the notes prior to January 1, 2020 or their prior redemption by us. The notes are convertible by holders into shares of our common stock, initially at a conversion rate of 19.7918 shares of common stock per $1,000 principal amount of notes, which is equivalent to an initial conversion price of approximately $50.53 per share of common stock and initially equals 2,473,975 shares of common stock, subject to adjustment in certain events, under the following circumstances:

- during any calendar quarter after December 31, 2004 if the last reported sale price of our common stock for at least 20 days in the period of 30 consecutive trading days ending on the last trading day of the preceding calendar quarter is greater than or equal to 120% of the conversion price on such last trading day,
- on or after January 1, 2020,
- if we have called the notes for redemption, or
- during prescribed periods, upon the occurrence of specified corporate transactions or fundamental changes as described in this prospectus.

Upon conversion of the notes, in lieu of delivering common stock, we may, in our discretion, deliver cash or a combination of cash and common stock. At any time prior to maturity, we can elect to obligate our company to satisfy our conversion obligation relating to 100% of the principal amount of the notes solely in cash, with any remaining amounts to be satisfied in cash, common stock, or a combination of cash and common stock, as described in this prospectus. If certain fundamental changes occur on or prior to December 1, 2009, we will in certain circumstances increase the conversion rate by a number of additional shares of common stock or, in lieu thereof, we may in certain circumstances elect to adjust the conversion rate and related conversion obligation so that the notes are convertible into shares of the acquiring or surviving company, in each case as described herein.

On or after December 1, 2009, we may redeem all or a portion of the notes at a redemption price of 100% of the principal amount of the notes plus accrued and unpaid interest. Holders may require us to repurchase all or part of their notes on December 1, 2009, December 1, 2014, and December 1, 2019 and in the event of a fundamental change, as described in this prospectus, at a price of 100% of the principal amount of the notes plus accrued and unpaid interest, including contingent interest.

The notes are general unsecured obligations, ranking junior in right of payment to all of our existing and future senior indebtedness, including any indebtedness under our existing or any future credit facility, equally in right of payment with any existing and future indebtedness or other obligations that are not by their terms either senior or subordinated to the notes, and senior in right of payment to any of our future indebtedness that, by its terms, is subordinated to the notes. In addition, the notes are effectively subordinated to any of our existing and future secured indebtedness to the extent of the assets securing such indebtedness and structurally subordinated to the indebtedness and other liabilities of our subsidiaries. The indenture governing the notes does not limit the incurrence by us or our subsidiaries of senior indebtedness or other indebtedness.

There is no public market for the notes, and we do not intend to apply for listing of the notes on any securities exchange or for quotation of the notes through any automated quotation system. The notes currently trade on The PORTAL Market. However, once notes are sold under this prospectus, these notes will no longer trade on The Portal Market.

Our common stock is traded on the Nasdaq National Market under the symbol SYNA. On January 25, 2005, the last reported sale price of our common stock was $37.03 per share.

Investing in the notes and in our common stock involves significant risks. See the Risk Factors section beginning on page 9.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2005.

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ABOUT THIS PROSPECTUS

You should rely only on the information contained or incorporated by reference in this prospectus or any accompanying prospectus supplement. We have not, and the selling securityholders have not, authorized anyone to provide you with information different from that contained or incorporated by reference in this prospectus or any accompanying prospectus supplement. We and the selling securityholders are offering to sell securities and seeking offers to buy securities only in jurisdictions where offers and sales are permitted. The information contained in this prospectus and in any accompanying prospectus supplement is accurate only as of the date on their covers, regardless of the time of delivery of this prospectus or any accompanying prospectus supplement or any sale of the securities.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of the securities laws. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control. All statements other than statements of historical facts included or incorporated by reference in this prospectus, including the statements under Prospectus Summary and elsewhere in this prospectus regarding our strategy, future operations, financial position, estimated revenues, projected costs, prospects, plans, and objectives, are forward-looking statements. When used in this prospectus, the words will, believe, anticipate, plan, intend, estimate, expect, project, expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Although we believe that our plans, intentions, and expectations reflected in or suggested by the forward-looking statements we make in this prospectus are reasonable, we cannot assure you that these plans, intentions, or expectations will be achieved. Actual results may differ materially from those stated in these forward-looking statements as a result of a variety of factors, including those described under Risk Factors. All forward-looking statements speak only as of the date of this prospectus. Neither we nor any of the selling securityholders undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. The cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in, or incorporated by reference into, this prospectus. This summary does not contain all of the information that you should consider before buying the securities offered hereby. You should read the entire prospectus, including the Risk Factors section and the financial data and related notes included in this prospectus and incorporated by reference herein, before deciding to invest in the securities offered hereby.

The Company

Our Business

We are a leading worldwide developer and supplier of custom-designed user interface solutions that enable people to interact more easily and intuitively with a wide variety of mobile computing, communications, entertainment, and other electronic devices. In our fiscal year ended June 30, 2004, we estimate that more than half of all notebook computers and hard-disk drive, or HDD, portable digital music players shipped contained our products. Our original equipment manufacturer, or OEM, customers include the world s ten largest PC OEMs and the largest HDD portable digital music player OEM. We generally supply our OEM customers through their contract manufacturers, which take delivery of our products and pay us directly for them. These contract manufacturers include Asusalpha, Compal, Elitegroup Computers, Foxconn, Inventec, LG, and Shanghai Yi Hsin.

The latest industry projections for notebook shipments for the period 2003-2007 suggest a compound annual growth rate of 19.1% compared with 6.5% for desktop computers, reflecting the continuing trend toward mobile computing and remote access. Based on the strength of our technology and engineering know-how, we believe we are well positioned to take advantage of the growth opportunity in the notebook market and to provide innovative, value-added interface solutions for each of the key end-user preferences. We estimate that in fiscal 2004 approximately 68% of all notebook computers sold used solely a touch pad interface; 8% used solely a pointing stick interface; and 24% used a dual pointing interface, which consists of both a touch pad and a pointing stick. Our notebook product lines of touch pads and pointing sticks allow us to address 100% of the total notebook market.

Industry projections for the portable digital music player market for flash memory and HDD devices for the period 2003-2007 suggest a compound annual growth rate of 47% for that market and a compound annual growth rate of 70% for the HDD segment of that market, reflecting the trend toward digital music player products containing greater data storage capacities. These products require a simple, reliable, and intuitive user interface solution to navigate efficiently through menus and scroll through extensive play lists and songs contained on the HDD. We believe we are uniquely positioned to take advantage of this rapidly growing market based on our technology, engineering know-how, and the broad acceptance of our custom-designed user interface solutions currently found in the top selling HDD digital music players.

Our TouchPad™ is a small, touch-sensitive pad that senses the position of a person s finger on its surface to provide screen navigation, cursor movement, and a platform for interactive input. Our TouchPads offer various advanced features, such as virtual scrolling; customizable tap zones to simulate mouse clicks, launch applications, or perform other select functions; Palm Check™ to eliminate false activation; and Edge Motion™ to continue cursor movement when the user s finger reaches the edge of the touch pad. Our TouchPads are custom designed to meet our OEM customers specifications regarding electrical interface, size, thickness, functionality, and driver software for various advanced features and operating systems. Our pointing stick solutions, including TouchStyk™, our proprietary pointing stick solution, enable computer manufacturers to offer end users the choice of a touch pad, a pointing stick, or a combination of both interface devices. TouchStyk is a self-contained, easily integrated module that uses similar sensing technology as our TouchPad. Our QuickStroke® provides a fast, easy, and accurate way to input Chinese characters.

We believe our extensive intellectual property portfolio, our experience in providing interface solutions to major OEMs, and our proven track record of growth in our expanding core notebook computer interface business position us to be a key technological enabler for multiple applications in many markets. Based on these strengths, we are addressing the opportunities created by the growth of a new class of mobile computing and communications devices, which we call information appliances, or iAppliances, as well as a variety of other electronic devices. iAppliances include portable digital music players, personal digital assistants, or PDAs, and smart phones, as well as a variety of mobile, handheld, wireless, and Internet devices. Other electronic devices include touchpads for set-top box remote controls for Internet access and home entertainment utilizing the user s television screen as the monitor as well as touch screens for use in ATMs, kiosks, web phones, and interactive gaming machines. We believe our existing technologies, our new product solutions, and our emphasis on ease of use, small size, low power consumption, advanced functionality, durability, and reliability will enable us to penetrate further the markets for iAppliances and other electronic devices.

We continually strive to introduce new user interface and technology solutions, including solutions for iAppliance and other electronic devices. Our innovative solutions include TouchRing™, SpeakerPad™, LuxPad™, Fingerprint TouchPad, NavPoint™, LightTouch™, ScrollStrip™, ClearPad™, and MobileTouch™ as well as touch pads with embedded character recognition software, and touch sensing modules for large touch screens. Our TouchRing is an integrated solid-state circular scrolling wheel utilizing our capacitive touch sensing technology that enables the user to navigate efficiently through menus and scroll through extensive play lists and songs found on HDD portable digital music players. Our SpeakerPad integrates our TouchPad and an audio speaker that saves space and fosters thinner, more compact notebooks; offers a simplified and improved design and manufacturing process; and provides quality sound. Our LuxPad is an innovative illuminated TouchPad designed to be appealing to customers and to serve as a product differentiator for our customers. Our ScrollStrip provides a simple and intuitive way for users to scroll through menus, web pages, and documents. Our NavPoint offers users improved functionality and versatility in accessing and managing content in handheld devices. Our LightTouch is a simple, easy to use, stylish interface solution that replaces mechanical buttons with an illuminated sensor. Our Fingerprint TouchPad combines our TouchPad with an advanced biometric sensor and software to provide a complete biometric security solution for notebook OEMs. The fingerprint recognition features of the Fingerprint TouchPad replace the need for a user name and password combination with the user s fingerprint. The Fingerprint TouchPad has the dual advantage of providing security by restricting log-in access to anyone other than the rightful user and providing user convenience by making it easier and faster to log in since a user name and password are not needed. Our ClearPad™ solution is a clear, thin sensor that can be placed over any surface, including display devices, such as liquid crystal displays, or LCDs. The ClearPad is a lightweight, low power consumption solution, and its flexible design allows it to be mounted on curved surfaces, such as the lens of a cellular phone. MobileTouch replaces the mechanical buttons on mobile phones with a capacitive sensor that translates finger movement for scrolling, selection, and cursor control into on-screen navigation. Our TouchPad with embedded Chinese character recognition software, allows users to interface application specific content, such as electronic payment processing, map locators, and short messaging services.

Our Strategy

Our objective is to continue to enhance our position as the world s leading supplier of interface solutions for the notebook computer market and portable digital music players and to become a leading supplier of interface solutions for other iAppliances and electronic devices. Key aspects of our strategy to achieve this objective include the following:

- utilize our extensive intellectual property portfolio and technological expertise to provide competitive advantages, extend the functionality of our product solutions, and offer innovative product solutions to customers across multiple market segments;
- continue to introduce market-leading interface solutions in terms of performance, functionality, size, and ease of use;
- capitalize on the growth of new markets, including the iAppliance markets, brought about by the convergence of computing, communications, and entertainment devices;
- emphasize and expand our strong and long-lasting customer relationships and provide the most advanced interface solutions for our customers products; and

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pursue strategic relationships and acquisitions to enhance our ability to offer value-added customer solutions, penetrate new markets, and strengthen the technological leadership of our product solutions.

Our Offices

We maintain our principal executive offices at 2381 Bering Drive, San Jose, California 95131, and our telephone number is (408) 434-0110. Our website is located at www.synaptics.com. The information on our website does not constitute part of this prospectus. Through our website, we make available free of charge our annual reports on Form 10-K, our proxy statements, our quarterly reports on Form 10-Q, and our current reports on Form 8-K as well as Form 3, Form 4, and Form 5 Reports for our directors, officers, and principal stockholders, together with amendments to those reports filed or furnished pursuant to Section 13(a), 15(d), or 16 under the Securities Exchange Act. These reports are available as soon as reasonably practicable after their electronic filing with the Securities and Exchange Commission. We also post on our website the charters of our Audit, Compensation, and Nominations and Corporate Governance Committees; our Corporate Governance Guidelines, our Code of Conduct, and our Code of Ethics for the CEO and Senior Financial Officers, and any amendments or waivers thereto; and any other corporate governance materials contemplated by SEC or Nasdaq regulations. These documents are also available in print by contacting our corporate secretary at our executive offices.

The Offering

The following summary contains basic information about the notes and is not intended to be complete. It does not contain all the information that will be important to a holder of the notes. For a more complete understanding of the notes, please see Description of Notes in this prospectus. For purposes of the description of the notes included in this prospectus, references to us, we, and our refer only to Synaptics Incorporated.

Issuer	Synaptics Incorporated, a Delaware corporation.
Securities Offered	$125.0 million aggregate principal amount of 0.75% Convertible Senior Subordinated Notes due 2024 and common stock issuable upon conversion of the notes.
Maturity Date of Notes	December 1, 2024, unless earlier repurchased, redeemed, or converted.
Ranking of Notes	The notes are our unsecured senior subordinated obligations, ranking as follows:
	junior in right of payment to all of our existing and future senior indebtedness, including any indebtedness under our existing, or any future, credit facility;
	equally in right of payment with any existing and future indebtedness or other obligations that are not, by their terms, either senior or subordinated to the notes, including trade debt and other general unsecured obligations that do not constitute senior or subordinated indebtedness; and
	senior in right of payment to any of our future indebtedness that, by its terms, is subordinated to the notes.
	The notes are effectively subordinated to our existing and future secured indebtedness to the extent of the assets securing such indebtedness and structurally subordinated to all existing and future indebtedness and other liabilities of our subsidiaries.
Interest	The notes bear interest at an annual rate of 0.75% from December 7, 2004, or from the most recent date to which interest has been paid or provided for, until, but not including,

	December 1, 2024, payable semi-annually in arrears on June 1 and December 1 of each year to holders of record at the close of business on the May 15 or November 15 immediately preceding such interest payment date. The first such interest payment date will be June 1, 2005. Interest generally will be computed on the basis of a 360-day year comprised of twelve 30-day months.
Contingent Interest	We will pay contingent interest to the holders of the notes during any six-month period from December 1 to May 31, and from June 1 to November 30, commencing with the six-month period beginning on December 1, 2009, if the average market price of a note for the five trading days ending on the third trading day immediately preceding the first day of the relevant six-month period equals 120% or more of the principal amount of the note. The amount of contingent interest payable per note with respect to any six-month period will equal 0.375% per annum of the average market price of such note for the five trading day period referred to above.
Conversion Rights	The notes may be converted by the holders into shares of our common stock, initially at a conversion rate of 19.7918 shares of common stock per $1,000 principal amount, which is equivalent to an initial conversion price of approximately $50.53 per share of common stock, subject to adjustment in certain events, under the following circumstances: during any calendar quarter commencing after December 31, 2004, if the last reported sale price of our common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding calendar quarter is greater than or equal to 120% of the applicable conversion price on such last trading day; on or after January 1, 2020; if we have called the notes for redemption; or during prescribed periods, upon the occurrence of specified corporate transactions or fundamental changes described in this prospectus. Upon conversion, we will have the right to deliver, in lieu of shares of our common stock, cash, or a combination of cash and shares of our common stock. At any time prior to maturity, we can elect to obligate our company to satisfy our conversion obligation relating to 100% of the principal amount of the notes solely in cash, with any remaining amounts to be satisfied in cash, common stock, or a combination of cash and common stock. If we elect to do so, we will notify holders that we intend to settle the principal amount of the notes upon conversion in cash, which is referred to as the principal conversion settlement election. Once provided to holders, this notification is irrevocable and will apply with regard to any conversion of the notes even if the notes cease to be convertible, but subsequently become convertible again. See Description of Notes Conversion Procedures Settlement Upon Conversion.

	We will not be required to notify holders of our method for settling our conversion obligation relating to the amount of the conversion value or, if we have made a principal conversion settlement election, our method of settling the excess of our conversion obligation relating to the amount of the conversion value above the principal amount, if any, until notes are submitted for conversion. Settlement entirely in common stock will occur as soon as practicable after we notify the holder that we have chosen this method of settlement. Settlement in cash or in a combination of cash and common stock will occur on the third trading day following the final day of a 20 trading day cash settlement averaging period beginning on the final trading day following the final day of a three business day conversion retraction period or, if no retraction period is applicable, the final trading day following the settlement notice period. See Description of Notes Conversion Procedures Settlement Upon Conversion.
	If you elect to convert your notes in connection with certain fundamental changes that occur on or prior to December 1, 2009, we will in certain circumstances increase the conversion rate by a number of additional shares of common stock upon conversion, or, in lieu thereof, we may in certain circumstances elect to adjust the conversion rate and related conversion obligations so that the notes are convertible into shares of the acquiring or surviving company.
	Upon any conversion, you will not, except in certain limited circumstances, receive any cash payment representing accrued and unpaid interest.
Optional Redemption	On or after December 1, 2009, we may redeem for cash all or a portion of the notes at a redemption price of 100% of the principal amount of the notes being redeemed plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the redemption date.
Purchase of Notes at a Holder s Option	Holders have the right to require us to repurchase all or a portion of their notes for cash on December 1, 2009, December 1, 2014, and December 1, 2019. The purchase price payable will be equal to 100% of the principal amount of the notes to be purchased plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the repurchase date.
Fundamental Change	Upon the occurrence of a fundamental change, as described in this prospectus, and before the maturity or redemption of the notes, holders may require us to purchase for cash all or any part of their notes at a purchase price equal to 100% of the principal amount of the notes to be purchased plus any accrued and unpaid interest (including contingent interest and additional interest, if any) up to, but not including, the fundamental change purchase date. See Description of Notes Purchase of Notes at a Holder s Option Upon a Fundamental Change.
Sinking Fund	None.

Registration Rights	We have agreed to use our best efforts to keep the shelf registration statement, of which this prospectus forms a part, effective until the earlier of the following: two years after the latest date on which we issued the notes; or the date on which the holders of the notes and common stock issuable upon conversion of the notes that are not affiliates of us are able to sell all such securities immediately without restriction in accordance with the provisions of Rule 144(k) under the Securities Act; the date on which all of the notes and common stock issuable upon conversion of the notes of those holders have been registered under the shelf registration statement and disposed of in accordance with such shelf registration statement; and the date on which all of the notes and common stock issuable upon conversion of the notes have ceased to be outstanding (whether as a result of repurchase and cancellation, conversion, or otherwise) or have been disposed of in accordance with the shelf registration statement. If we fail to maintain our obligation with respect to registration, we will be required to pay you additional interest on your notes or to issue additional shares upon conversion of your notes, as described in this prospectus. See Description of Notes Registration Rights.
Book-Entry Form	The notes were issued in book-entry form and are represented by permanent global certificates deposited with, or on behalf of, The Depository Trust Company, or DTC, and registered in the name of a nominee of DTC. Beneficial interests in any of the notes are shown on, and transfers will be effected only through, records maintained by DTC or its nominee and any such interest may not be exchanged for certificated securities, except in limited circumstances. See Description of Notes Form, Denomination, and Registration.
Trading	The notes are eligible for trading on The PORTAL Market. However, notes sold using this prospectus will no longer be eligible for trading on The PORTAL Market.
Nasdaq National Market Symbol	The trading symbol for our common stock is SYNA.
Use of Proceeds	We will not receive any of the proceeds from the sale by the selling securityholders of the notes or shares of common stock issuable upon conversion of the notes.
U.S. Federal Income Tax Considerations	We and each holder agree in the indenture, for U.S. federal income tax purposes, to treat the notes as contingent payment debt instruments and to be bound by our application of the Treasury Regulations that govern contingent payment debt instruments. As a result, a U.S. holder will be required to include original issue discount in gross income for U.S. federal income tax purposes in advance of any cash interest received on the notes. For U.S. federal income tax purposes, this original

issue discount income will accrue from the original issue date of the notes at the comparable yield of the notes, which we have determined to be 8.50% per annum, compounded semi-annually. U.S. holders will be required to accrue original issue discount income at this rate on a constant yield to maturity basis (subject to certain adjustments). A U.S. holder also will recognize gain or loss on the sale, exchange, conversion, repurchase, or retirement of a note in an amount equal to the difference between the amount realized on the sale, exchange, conversion, repurchase, or retirement, including the fair market value of any common stock received upon conversion or otherwise, and the U.S. holder s adjusted tax basis in the note. Any gain recognized by a U.S. holder on the sale, exchange, conversion, repurchase, or retirement of a note generally will be ordinary interest income; any loss will be ordinary loss to the extent of the interest previously included in income; and the balance will be treated as capital loss. The deductibility of capital losses is subject to limitations. However, the proper U.S. federal income tax treatment of a holder of a note is uncertain in various respects. If the agreed upon treatment was successfully challenged by the Internal Revenue Service, the amount, timing, character, and treatment of income, gain, or loss recognized in respect of the notes could be significantly altered. See Material U.S. Federal Income Tax Considerations.

Risk Factors

Investing in the notes or in our common stock involves a number of material risks. For a discussion of certain risks that should be considered in connection with an investment in the notes or in our common stock, see Risk Factors beginning on page 8 of this prospectus.

Accounting Periods

Our fiscal year ends on the last Saturday in June. For ease of presentation, the financial information in this prospectus has been shown as ending on June 30 and calendar quarter end dates for all annual, interim, and quarterly periods.

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Ratio of Earnings to Fixed Charges

Set forth below is information concerning our ratio of earnings to fixed charges on a consolidated basis for the periods indicated. This ratio shows the extent to which our business generates enough earnings after the payment of all expenses other than interest to make the required interest payments on the notes.

For purposes of computing the ratio of earnings to fixed charges, earnings consist of income before income taxes and fixed charges. For the year ended June 30, 2000, earnings are calculated before equity in losses of affiliated company. Fixed charges consist of interest expense and the portion of rent expense we believe represents the interest component of such rent expense.

	Years Ended June 30,					Six Months Ended December 31,	
	2000	**2001**	**2002**	**2003**	**2004**	**2003**	**2004**
	(in thousands, except for ratios)					(unaudited)	
Fixed Charges:							
Interest expense	$ 159	$ 183	$ 197	$ 155	$ 134	$ 68	$ 177
Portion of rent expense deemed to represent interest	194	236	242	325	358	193	206
Total fixed charges	$ 353	$ 419	$ 439	$ 480	$ 492	$ 261	$ 383
Earnings:							
Net income (loss)	$(2,007)	$ 810	$ 9,400	$ 7,718	$12,992	$5,768	$14,155
Equity in losses of affiliated company	2,712						
Income taxes	120	180	5,056	4,344	7,934	3,610	9,281
Fixed charges	353	419	439	480	492	261	383
Total earnings for computation of ratio	$ 1,178	$1,409	$14,895	$12,542	$21,418	$9,639	$23,819
Ratio of earnings to fixed charges	3.3	3.4	33.9	26.1	43.5	36.9	62.2
Ratio of earnings to fixed charges as adjusted(1)					10.1	9.1	21.1

(1) The ratio of earnings to fixed charges as adjusted assumes the issuance of the notes as of July 1, 2003.

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RISK FACTORS

An investment in the notes, and the common stock issuable upon conversion of the notes, involves various risks. You should carefully consider the following risk factors, together with all the other information included or incorporated by reference in this prospectus, before purchasing notes or our common stock.

Risks Related to our Business

We currently depend on our TouchPad and TouchStyk products and the notebook computer market for a majority of our revenue, and a downturn in these products or this market could have a more disproportionate impact on our revenue than if we were more diversified.

Historically, we derived a substantial portion of our revenue from the sale of our TouchPad and TouchStyk products for notebook computers. While our long-term objective is to derive revenue from multiple interface solutions for both the notebook computer market and the iAppliance and other electronic device markets, we anticipate that sales of our TouchPads and TouchStyks for notebooks will continue to represent a significant portion of our revenue, at least in the near term. The PC market as a whole has experienced a slowdown in growth. A continuing or accelerating softening in the demand in the notebook portion of the PC market or the level of our participation in that market would cause our business, financial condition, and results of operations to suffer more than they would have if we offered a more diversified line of products.

We cannot assure you that our interface solutions for portable digital music players will continue to expand or that our interface business for other iAppliances and electronic devices will be successful.

We cannot assure you that our interface solutions for portable digital music players will continue to expand. Any downturn in this business would adversely affect our operating results. In addition, our interface business for other iAppliances and electronic devices faces many uncertainties. Our inability to address these uncertainties successfully and to become a leading supplier of interfaces to these other markets would result in a slower growth rate than we currently anticipate. We do not know whether our user interface solutions for these other markets will gain market acceptance or will ever result in a substantial portion of our revenue on a consistent basis. The failure to succeed in these other markets would result in no return on the substantial investments we have made to date and plan to make in the future to penetrate these markets.

Various target markets for our interfaces, such as those for PDAs, smart phones, smart handheld devices, web terminals, Internet appliances, and interactive games and toys, are uncertain, may develop slower than anticipated, or could utilize competing technologies. The market for certain of these products depends in part upon the development and deployment of wireless and other technologies, which may or may not address the needs of users of these new products.

Our ability to generate significant revenue from the iAppliance and other electronic device markets other than portable digital music players will depend on various factors, including the following:

- the development and growth of these markets;
- the ability of our technologies and product solutions to address the needs of these markets, the requirements of OEMs, and the preferences of end users; and
- our ability to provide OEMs with interface solutions that provide advantages in terms of size, power consumption, reliability, durability, performance, and value-added features compared to alternative solutions.

Many manufacturers of these products have well-established relationships with competitive suppliers. Penetrating these markets will require us to offer better performance alternatives to existing solutions at competitive costs. We generally do not have a significant backlog of orders for our interface solutions to be incorporated in products in these markets. The revenue and income potential from these markets is unproven. The failure of any of these target markets to develop as we expect, or our failure to penetrate these markets, will impede our anticipated sales growth and could result in substantially reduced earnings from those we anticipate. These markets, primarily portable digital music players, accounted for approximately 16% of our revenue in fiscal 2004, up from 7% in fiscal 2003. We cannot predict the size or growth rate of these markets or the market share we will achieve in these markets in the future.

Our historical financial information is based on sales of interface solutions to the notebook computer market and may not be indicative of our future performance in other markets.

Our historical financial information primarily reflects the sale of interface solutions for notebook computers. While we expect sales of our interface solutions for notebook computers to continue to generate a substantial percentage of our revenue, we expect to derive an increasing percentage of our revenue from sales of our product solutions for additional markets, including portable digital music players and other iAppliances and electronic devices. We have a limited operating history in these markets upon which you can evaluate our prospects, which may make it difficult to predict our actual results in future periods. Actual results of our future operations may differ materially from our anticipated results.

The products of our customers may not achieve market acceptance, particularly in the case of iAppliances and other electronic devices other than portable digital music players, and our sales will decline if sales of those products do not develop or decline.

We do not sell any products to end users. Instead, we design various interface solutions that our OEM customers incorporate into their products. As a result, our success depends almost entirely upon the widespread market acceptance of our customers products. We do not control or influence the manufacture, promotion, distribution, or pricing of the products that incorporate our interface solutions. Instead, we depend on our customers to manufacture and distribute products incorporating our interface solutions and to generate consumer demand through marketing and promotional activities. Even if our technologies successfully meet our customers price and performance goals, our sales would decline or fail to develop if our customers do not achieve commercial success in selling their products that incorporate our interface solutions.

Our customer base historically consisted primarily of major U.S.-based OEMs that sell notebook computers worldwide. During fiscal 2002, we began to ship products to many of the Japan-based OEMs. Competitive advances by OEMs, which do not utilize our interface solutions broadly in their product offerings, at the expense of our OEM customers could result in lost sales opportunities for our customers. The portable digital music player market also has become an important factor in our operating results. Any significant slowdown in the demand for our customers products or the failure in the marketplace of new products of our customers would adversely affect the demand for our interface solutions and our future sales would decline.

If we fail to maintain and build relationships with our customers and do not continue to satisfy our customers, we may lose future sales and our revenue may stagnate or decline.

Because our success depends on the widespread market acceptance of our customers products, we must continue to maintain our relationships with the leading notebook computer and portable digital music player OEMs. In addition, we must identify areas of significant growth potential in other markets, establish relationships with OEMs in those markets, and assist those OEMs in developing products that use our interface technologies. Our failure to identify potential growth opportunities, particularly in new markets, or establish and maintain relationships with OEMs in those markets, would prevent our business from growing in those markets.

Our ability to meet the expectations of our customers requires us to provide innovative interface solutions for customers on a timely and cost-effective basis and to maintain customer satisfaction with our interface solutions. We must match our design and production capacity with customer demand, maintain satisfactory delivery schedules, and meet performance goals. If we are unable to achieve these goals for any reason, our customers could reduce their purchases from us and our sales would decline or fail to develop.

Our customer relationships also can be affected by factors affecting our customers that are unrelated to our performance. These factors can include a myriad of situations, including business reversals of

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customers, determinations by customers to change their product mix or abandon business segments, or mergers, consolidations, or acquisitions involving our customers, such as the recent combination of Compaq and Hewlett-Packard.

In fiscal 2004, two customers accounted for an aggregate of 35% of our sales, and the loss of sales to either of those companies could harm our business, financial condition, and results of operations.

Sales to two companies that provide manufacturing services for major notebook computer OEMs accounted for an aggregate of 35% of our net revenue during the fiscal year ended June 30, 2004, and three companies accounted for an aggregate of 30% of our net revenue for the fiscal year ended June 30, 2003. These companies are Inventec and Compal in fiscal 2004 and Inventec, Shanghai Yi Hsin, and Foxconn in fiscal 2003. Additionally, receivables from Inventec and Compal comprised a total of 41% of our accounts receivable at June 30, 2004.

These contract manufacturers serve our OEM customers. Any material delay, cancellation, or reduction of orders from any one or more of these contract manufacturers or the OEMs they serve could harm our business, financial condition, and results of operations. The adverse effect would be more substantial if our other customers in the notebook computer industry do not increase their orders or if we are unsuccessful in generating orders for interface solutions in other markets, including iAppliances and other electronic devices, from existing or new customers. Many of these contract manufacturers sell to the same OEMs, and therefore our concentration with certain OEMs may be higher than with any individual contract manufacturer. Concentration in our customer base may make fluctuations in revenue and earnings more severe and make business planning more difficult.

Our revenue may decline if customers for which we are sole source providers seek alternative sources of supply.

We serve as the sole source provider for some of our customers. Those customers may choose to reduce their dependence on us by seeking second sources of supply, which could reduce our revenue. To remain a sole source provider, we must continue to demonstrate to our customers that we have adequate alternate sources for components, that we maintain adequate alternatives for production, and that we can deliver high value added products on a timely basis.

We rely on others for our production, and any interruptions of these arrangements could disrupt our ability to fill our customers orders.

We outsource through contract manufacturers for all of our production requirements. The majority of our manufacturing is conducted in China, Hong Kong, Thailand, and Taiwan by manufacturing subcontractors that also perform services for numerous other companies. We do not have a guaranteed level of production capacity. Qualifying new manufacturing subcontractors, and specifically semiconductor foundries, is time-consuming and might result in unforeseen manufacturing and operations problems. The loss of our relationships with our manufacturing subcontractors or assemblers or their inability to conduct their manufacturing and assembly services for us as anticipated in terms of cost, quality, and timeliness could adversely affect our ability to fill customer orders in accordance with required delivery, quality, and performance requirements. If this were to occur, the resulting decline in revenue would harm our business.

We depend on third parties to maintain satisfactory manufacturing yields and delivery schedules, and their inability to do so could increase our costs, disrupt our supply chain, and result in our inability to deliver our products, which would adversely affect our results of operations.

We depend on our manufacturing subcontractors to maintain high levels of productivity and satisfactory delivery schedules at manufacturing and assembly facilities in China, Hong Kong, Thailand, and Taiwan. We provide our manufacturing subcontractors with six-month rolling forecasts of our production requirements. We do not, however, have long-term agreements with any of our manufacturing subcontractors that guarantee production capacity, prices, lead times, or delivery schedules. Our manufacturing subcontractors serve other customers, a number of which have greater production requirements than we do. As a result, our manufacturing subcontractors could determine to prioritize

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production capacity for other customers or reduce or eliminate deliveries to us on short notice. At times, we have experienced lower than anticipated manufacturing yields and lengthening of delivery schedules. Lower than expected manufacturing yields could increase our costs or disrupt our supplies. We may encounter lower manufacturing yields and longer delivery schedules in commencing volume production of our new products. Any of these problems could result in our inability to deliver our product solutions in a timely manner and adversely affect our operating results.

Shortages of components and materials may delay or reduce our sales and increase our costs, thereby harming our results of operations.

The inability to obtain sufficient quantities of components and other materials necessary for the production of our products could result in reduced or delayed sales or lost orders. Any delay in or loss of sales could adversely impact our operating results. Many of the materials used in the production of our products are available only from a limited number of foreign suppliers, particularly suppliers located in Asia. In most cases, neither we nor our manufacturing subcontractors have long-term supply contracts with these suppliers. As a result, we are subject to economic instability in these Asian countries as well as to increased costs, supply interruptions, and difficulties in obtaining materials. Our customers also may encounter difficulties or increased costs in obtaining the materials necessary to produce their products into which our product solutions are incorporated.

From time to time, materials and components used in our product solutions or in other aspects of our customers products have been subject to allocation because of shortages of these materials and components. During portions of fiscal 2000 and 2001, limited manufacturing capacity for ASICs resulted in significant cost increases of our ASICs. Similar shortages in the future could cause delayed shipments, customer dissatisfaction, and lower revenue.

We are subject to lengthy development periods and product acceptance cycles, which can result in development and engineering costs without any future revenue.

We provide interface solutions that are incorporated by OEMs into the products they sell. OEMs make the determination during their product development programs whether to incorporate our interface solutions or pursue other alternatives. This process requires us to make significant investments of time and resources in the custom design of interface solutions well before our customers introduce their products incorporating these interfaces and before we can be sure that we will generate any significant sales to our customers or even recover our investment. During a customer s entire product development process, we face the risk that our interfaces will fail to meet our customer s technical, performance, or cost requirements or that our products will be replaced by competitive products or alternative technological solutions. Even if we complete our design process in a manner satisfactory to our customer, the customer may delay or terminate its product development efforts. The occurrence of any of these events could cause sales to not materialize, to be deferred, or to be cancelled, which would adversely affect our operating results.

We do not have long-term purchase commitments from our customers, and their ability to cancel, reduce, or delay orders could reduce our revenue and increase our costs.

Our customers do not provide us with firm, long-term volume purchase commitments, but instead issue purchase orders. As a result, customers can cancel purchase orders or reduce or delay orders at any time. The cancellation, delay, or reduction of customer purchase orders could result in reduced revenue, excess inventory, and unabsorbed overhead. Most of our sales to date have been in the notebook computer market, and we expect an increasing portion of our sales will be in the iAppliance and other electronic devices markets, particularly in the digital music player market. All of these markets are subject to severe competitive pressures, rapid technological change, and product obsolescence, which increase our inventory and overhead risks, resulting in increased costs.

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We face intense competition that could result in our losing or failing to gain market share and suffering reduced revenue.

We serve intensely competitive markets that are characterized by price erosion, rapid technological change, and competition from major domestic and international companies. This intense competition could result in pricing pressures, lower sales, reduced margins, and lower market share. Any movement away from high-quality, custom designed, feature rich interface solutions to lower priced alternatives would adversely affect our business. Some of our competitors, particularly in the markets for iAppliances and other electronic devices, have greater market recognition, larger customer bases, and substantially greater financial, technical, marketing, distribution, and other resources than we possess and that afford them competitive advantages. As a result, they may be able to devote greater resources to the promotion and sale of products, to negotiate lower prices for raw materials and components, to deliver competitive products at lower prices, and to introduce new product solutions and respond to customer requirements more quickly than we can. Our competitive position could suffer if one or more of our customers decide to design and manufacture their own interfaces, to contract with our competitors, or to use alternative technologies.

Our ability to compete successfully depends on a number of factors, both within and outside our control. These factors include the following:

- our success in designing and introducing new interface solutions, including those implementing new technologies;
- our ability to predict the evolving needs of our customers and to assist them in incorporating our technologies into their new products;
- our ability to meet our customer s requirements for low power consumption, ease of use, reliability, durability, and small form factor;
- the quality of our customer services;
- the rate at which customers incorporate our interface solutions into their own products;
- product or technology introductions by our competitors; and
- foreign currency fluctuations, which may cause a foreign competitor s products to be priced significantly lower than our product solutions.

If we do not keep pace with technological innovations, our products may not be competitive and our revenue and operating results may suffer.

We operate in rapidly changing markets. Technological advances, the introduction of new products, and new design techniques could adversely affect our business unless we are able to adapt to the changing conditions. Technological advances could render our solutions obsolete, and we may not be able to respond effectively to the technological requirements of evolving markets. As a result, we will be required to expend substantial funds for and commit significant resources to

- continue research and development activities on existing and potential interface solutions,
- hire additional engineering and other technical personnel, and
- purchase advanced design tools and test equipment.

Our business could be harmed if we are unable to develop and utilize new technologies that address the needs of our customers, or our competitors or customers do so more effectively than we do.

Our efforts to develop new technologies may not result in commercial success, which could cause a decline in our revenue and could harm our business.

Our research and development efforts with respect to new technologies may not result in customer or market acceptance. Some or all of those technologies may not successfully make the transition from the research and development lab to cost-effective production as a result of technology problems, competitive cost issues, yield problems, and other factors. Even when we successfully complete a research and development effort with respect to a particular technology, our customers may decide not to introduce or may terminate products utilizing the technology for a variety of reasons, including the following:

difficulties with other suppliers of components for the products,

superior technologies developed by our competitors and unfavorable comparisons of our solutions with these technologies,

price considerations, and

lack of anticipated or actual market demand for the products.

The nature of our business requires us to make continuing investments for new technologies. Significant expenses relating to one or more new technologies that ultimately prove to be unsuccessful for any reason could have a material adverse effect on us. In addition, any investments or acquisitions made to enhance our technologies may prove to be unsuccessful. If our efforts are unsuccessful, our business could be harmed.

We may not be able to enhance our existing product solutions and develop new product solutions in a timely manner.

Our future operating results will depend to a significant extent on our ability to continue to provide new interface solutions that compare favorably with alternative solutions on the basis of time to introduction, cost, and performance. Our success in maintaining existing and attracting new customers and developing new business depends on various factors, including the following:

innovative development of new solutions for customer products,

utilization of advances in technology,

maintenance of quality standards,

efficient and cost-effective solutions, and

timely completion of the design and introduction of new interface solutions.

Our inability to enhance our existing product solutions and develop new product solutions on a timely basis could harm our operating results and impede our growth.

A technologically new interface solution that achieves significant market share could harm our business.

Our interface solutions are designed to integrate touch, handwriting, and vision capabilities. New computing and communications devices could be developed that call for a different interface solution. Existing devices also could be modified to allow for a different interface solution. Our business could be harmed if our products become noncompetitive as a result of a technological breakthrough that allows a new interface solution to displace our solutions and achieve significant market acceptance.

International sales and manufacturing risks could adversely affect our operating results.

Our manufacturing and assembly operations are conducted in China, Thailand, Hong Kong, and Taiwan by manufacturing contractors, and we have other operations in Hong Kong, Japan, Taiwan, China, and the United Kingdom. These international operations expose us to various economic, political, and other risks that could adversely affect our operations and operating results, including the following:

difficulties and costs of staffing and managing a multi-national organization,

unexpected changes in regulatory requirements,

differing labor regulations,

potentially adverse tax consequences,

tariffs and duties and other trade barrier restrictions,

possible employee turnover or labor unrest,

- greater difficulty in collecting accounts receivable,
- the burdens and costs of compliance with a variety of foreign laws,
- potentially reduced protection for intellectual property rights, and
- political or economic instability in certain parts of the world.

The risks associated with international operations could negatively affect our operating results.

Our business may suffer if international trade is hindered, disrupted, or economically disadvantaged.

Political and economic conditions abroad may adversely affect the foreign production and sale of our products. Protectionist trade legislation in either the United States or foreign countries, such as a change in the current tariff structures, export or import compliance laws, or other trade policies, could adversely affect our ability to sell interface solutions in foreign markets and to obtain materials or equipment from foreign suppliers.

Changes in policies by the U.S. or foreign governments resulting in, among other things, higher taxation, currency conversion limitations, restrictions on the transfer of funds, or the expropriation of private enterprises also could have a material adverse effect on us. Any actions by countries in which we conduct business to reverse policies that encourage foreign investment or foreign trade also could adversely affect our operating results. In addition, U.S. trade policies, such as most favored nation status and trade preferences for certain Asian nations, could affect the attractiveness of our services to our U.S. customers and adversely impact our operating results.

Our operating results could be adversely affected by fluctuations in the value of the U.S. dollar against foreign currencies.

We transact business predominantly in U.S. dollars and bill and collect our sales in U.S. dollars. A weakening of the dollar could cause our overseas vendors to require renegotiation of the prices we pay for their goods and services. In the future, customers may make payments in non-U.S. currencies. In addition, a portion of our costs, such as payroll, rent, and indirect operating costs, are denominated in non-U.S. currencies, including British pounds, Hong Kong dollars, Japanese Yen, Chinese Yuan, and Taiwan dollars.

Fluctuations in foreign currency exchange rates could affect our cost of goods and operating margins and could result in exchange losses. In addition, currency devaluation can result in a loss to us if we hold deposits of that currency. Hedging foreign currencies can be difficult, especially if the currency is not freely traded. We cannot predict the impact of future exchange rate fluctuations on our operating results.

A majority of our outsourced operations are located in Taiwan, Hong Kong, and China, increasing the risk that a natural disaster, labor strike, war, or political unrest in those countries would disrupt our operations.

A majority of our outsourced operations are located in Taiwan, Hong Kong, and China. Events out of our control, such as earthquakes, fires, floods, or other natural disasters or political unrest, war, labor strikes, or work stoppages, in these countries would disrupt our operations. The risk of earthquakes in Taiwan is significant because of its proximity to major earthquake fault lines. An earthquake, such as the one that occurred in Taiwan in September 1999, could cause significant delays in shipments of our product solutions until we are able to shift our outsourced operations. In addition, there is political tension between Taiwan and China, which could lead to hostilities. If any of these events occur, we may not be able to obtain alternative capacity. Failure to secure alternative capacity could cause a delay in the shipment of our product solutions, which would cause our revenue to fluctuate or decline.

Variability of customer requirements resulting in cancellations, reductions, or delays may adversely affect our operating results.

OEM suppliers must provide increasingly rapid product turnaround and respond to ever-shorter lead times. A variety of conditions, both specific to individual customers and generally affecting the demand for their products, may cause customers to cancel, reduce, or delay orders. Cancellations, reductions, or delays

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by a significant customer or by a group of customers could adversely affect our operating results. On occasion, customers require rapid increases in production, which can strain our resources and reduce our margins. Although we have been able to obtain increased production capacity from our third-party manufacturers, we may be unable to do so at any given time to meet our customers demands if their demands exceed anticipated levels.

If we fail to manage our growth effectively, our infrastructure, management, and resources could be strained, our ability to effectively manage our business could be diminished, and our operating results could suffer.

The failure to manage our growth effectively could strain our resources, which would impede our ability to increase revenue. We have increased the number of our interface solutions and plan to expand further the number and diversity of our solutions and their use in the future. Our ability to manage our planned diversification and growth effectively will require us to

- successfully hire, train, retain, and motivate additional employees, including employees outside of the United States;
- enhance our operational, financial, and management systems; and
- expand our production capacity.

As we expand and diversify our product and customer base, we may be required to increase our overhead and selling expenses. We also may be required to increase staffing and other expenditures, including expenses in order to meet the anticipated demand of our customers. Our customers, however, do not commit to firm production schedules for more than a short time in advance. Any increase in expenses in anticipation of future orders that do not materialize would adversely affect our profitability. Our customers also may require rapid increases in design and production services that place an excessive short-term burden on our resources and the resources of our third-party manufacturers. If we cannot manage our growth effectively, our business and results of operations could suffer.

We depend on key personnel who would be difficult to replace and our business will likely be harmed if we lose their services or cannot hire additional qualified personnel.

Our success depends substantially on the efforts and abilities of our senior management and technical personnel. The competition for qualified management and technical personnel, especially engineers, is intense. Although we maintain noncompetition and nondisclosure covenants with most of our key personnel, we do not have employment agreements with most of them. The loss of services of one or more of our key employees or the inability to hire, train, and retain key personnel, especially engineers and technical support personnel and capable sales and customer-support employees outside of the United States, could delay the development and sale of our products, disrupt our business, and interfere with our ability to execute our business plan.

Our inability to protect our intellectual property could impair our competitive advantage, reduce our revenue, and increase our costs.

Our success and ability to compete depend in part on our ability to maintain the proprietary aspects of our technologies and products. We rely on a combination of patents, copyrights, trade secrets, trademarks, confidentiality agreements, and other contractual provisions to protect our intellectual property, but these measures may provide only limited protection. We license from third parties certain technology used in and for our products. These third-party licenses are granted with restrictions, and there can be no assurances that such third-party technology will remain available to us on terms beneficial to us. Our failure to enforce and protect our intellectual property rights or obtain from third parties the right to use necessary technology could have a material adverse effect on our business, financial condition, and results of operations. In addition, the laws of some foreign countries do not protect proprietary rights as fully as do the laws of the United States.

Patents may not issue from the patent applications that we have filed or may file in the future. Our issued patents may be challenged, invalidated, or circumvented, and claims of our patents may not be of sufficient scope or strength, or issued in the proper geographic regions, to provide meaningful protection or any commercial advantage. We have not applied for, and do not have, any copyright registration on our technologies or products. We have applied to register certain of our trademarks in the United States and other countries. There can be no assurances that we will obtain registrations of principle or other trademarks in key markets. Failure to obtain registrations could compromise our ability to protect fully our trademarks and brands and could increase the risk of challenge from third parties to our use of our trademarks and brands.

We do not consistently rely on written agreements with our customers, suppliers, manufacturers, and other recipients of our technologies and products, and therefore some trade secret protection may be lost and our ability to enforce our intellectual property rights may be limited. Additionally, our customers, suppliers, manufacturers, and other recipients of our technologies and products may seek to use our technologies and products without appropriate limitations. In the past, we did not consistently require our employees and consultants to enter into confidentiality agreements, employment agreements, or proprietary information and invention assignment agreements. Therefore, our former employees and consultants may try to claim some ownership interest in our technologies and products and may use our technologies and products competitively and without appropriate limitations.

We may be required to incur substantial expenses and divert management attention and resources in defending intellectual property litigation against us.

We may receive notices from third parties that claim our products infringe their rights. From time to time, we receive notice from third parties of the intellectual property rights such parties have obtained. We cannot be certain that our technologies and products do not and will not infringe issued patents or other proprietary rights of others. While we are not currently subject to any infringement claim, any future claim, with or without merit, could result in significant litigation costs and diversion of resources, including the attention of management, and could require us to enter into royalty and licensing agreements, any of which could have a material adverse effect on our business. There can be no assurance that such licenses could be obtained on commercially reasonable terms, if at all, or that the terms of any offered licenses would be acceptable to us. If forced to cease using such technology, there can be no assurance that we would be able to develop or obtain alternate technology. Accordingly, an adverse determination in a judicial or administrative proceeding or failure to obtain necessary licenses could prevent us from manufacturing, using, or selling certain of our products, which could have a material adverse effect on our business, financial condition, and results of operations.

Furthermore, parties making such claims could secure a judgment awarding substantial damages, as well as injunctive or other equitable relief that could effectively block our ability to make, use, or sell our products in the United States or abroad. Such a judgment could have a material adverse effect on our business, financial condition, and results of operations. In addition, we are obligated under certain agreements to indemnify the other party in connection with infringement by us of the proprietary rights of third parties. In the event we are required to indemnify parties under these agreements, it could have a material adverse effect on our business, financial condition, and results of operations.

We may incur substantial expenses and divert management resources in prosecuting others for their unauthorized use of our intellectual property rights.

The markets in which we compete are characterized by frequent litigation regarding patents and other intellectual property rights. Other companies, including our competitors, may develop technologies that are similar or superior to our technologies, duplicate our technologies, or design around our patents and may have or obtain patents or other proprietary rights that would prevent, limit, or interfere with our ability to make, use, or sell our products. Effective intellectual property protection may be unavailable or limited in some foreign countries, such as China and Taiwan, in which we operate. Unauthorized parties may attempt to copy or otherwise use aspects of our technologies and products that we regard as proprietary. There can be no assurance that our means of protecting our proprietary rights in the United States or abroad will be adequate or that competitors will not independently develop similar technologies. If our intellectual property protection is insufficient to protect our intellectual property rights, we could face increased competition in the market for our technologies and products.

Should any of our competitors file patent applications or obtain patents that claim inventions also claimed by us, we may choose to participate in an interference proceeding to determine the right to a patent for these inventions because our business would be harmed if we fail to enforce and protect our intellectual property rights. Even if the outcome is favorable, this proceeding could result in substantial cost to us and disrupt our business.

In the future, we also may need to file lawsuits to enforce our intellectual property rights, to protect our trade secrets, or to determine the validity and scope of the proprietary rights of others. This litigation, whether successful or unsuccessful, could result in substantial costs and diversion of resources, which could have a material adverse effect on our business, financial condition, and results of operations.

If we become subject to product returns and product liability claims resulting from defects in our products, we may fail to achieve market acceptance of our products and our business could be harmed.

We develop complex products in an evolving marketplace. Despite testing by us and our customers, defects may be found in existing or new products. In fiscal 2001, a manufacturing error of one of our manufacturing subcontractors was discovered. Although the error was promptly discovered without significant interruption of supply and the manufacturing subcontractor rectified the problem at its own cost, any such manufacturing errors or product defects could result in a delay in recognition or loss of revenue, loss of market share, or failure to achieve market acceptance. Additionally, these defects could result in financial or other damages to our customers; cause us to incur significant warranty, support, and repair costs; and divert the attention of our engineering personnel from our product development efforts. In such circumstances, our customers could also seek and obtain damages from us for their losses. A product liability claim brought against us, even if unsuccessful, would likely be time-consuming and costly to defend. The occurrence of these problems would likely harm our business.

Potential strategic alliances may not achieve their objectives, and the failure to do so could impede our growth.

We anticipate that we will continue to enter into various additional strategic alliances. Among other matters, we continually explore strategic alliances designed to enhance or complement our technology or to work in conjunction with our technology; to provide necessary know-how, components, or supplies; and to develop, introduce, and distribute products utilizing our technology. Any strategic alliances may not achieve their intended objectives, and parties to our strategic alliances may not perform as contemplated. The failure of these alliances may impede our ability to introduce new products and enter new markets.

Any acquisitions that we undertake could be difficult to integrate, disrupt our business, dilute stockholder value, and harm our operating results.

We expect to review opportunities to acquire other businesses and technologies that would complement our current interface solutions, expand the breadth of our markets, enhance our technical capabilities, or otherwise offer growth opportunities. While we have no current definitive agreements underway, we may acquire businesses, products, or technologies in the future. If we make any future acquisitions, we could issue stock that would dilute existing stockholders percentage ownership, incur substantial debt, or assume contingent liabilities. Our experience in acquiring other businesses and technologies is limited. Potential acquisitions also involve numerous risks, including the following:

- problems assimilating the purchased operations, technologies, or products;
- unanticipated costs associated with the acquisition;
- diversion of management s attention from our core businesses;
- adverse effects on existing business relationships with suppliers and customers;
- risks associated with entering markets in which we have little or no prior experience; and
- potential loss of key employees of purchased organizations.

We cannot assure you that we would be successful in overcoming problems encountered in connection with any acquisitions, and our inability to do so could disrupt our operations and adversely affect our business.

The PC and electronics industries are cyclical and may result in fluctuations in our operating results.

The PC and electronics industries have experienced significant economic downturns at various times. These downturns are characterized by diminished product demand, accelerated erosion of average selling prices, and production overcapacity. In addition, the PC and electronics industries are cyclical in nature. We seek to reduce our exposure to industry downturns and cyclicality by providing design and production services for leading companies in rapidly expanding industry segments. We may, however, experience substantial period-to-period fluctuations in future operating results because of general industry conditions or events occurring in the general economy.

The valuation of our technology conducted in connection with our international operating structure may be challenged, which could result in additional taxes, interest, and penalties.

In June 2004, we implemented an international operating structure. Under the new structure, generally, one of our affiliates licensed from us certain rights to the pre-existing and in-process technology associated with our products for exploitation in the worldwide territory except the U.S., Japanese, and Korean markets, which we refer to as ROW markets . Our affiliate also acquired ownership of all future economic rights to product sales in ROW markets by entering into a cost sharing agreement with us, whereby we and our affiliate will share research and development costs in accordance with certain tax rules and regulations. Accompanying the implementation of the business structure, and performed with respect thereto, was an economic valuation of the technology with respect to the rights transferred to our affiliate. Although we have been advised by our economic valuation provider that the valuation is reasonable and that the appropriate valuation procedures and processes were used in preparing the valuation, there can be no guarantee that a tax authority will agree. In the case that a tax authority disagrees with the results of the valuation, it is possible that we may be found to have more income for the tax period(s) for which the disagreement exists and, as a result, additional tax and interest may result. Although it is the intent that the valuation satisfies the requirements of certain tax rules and regulations, there can be no guarantee that a tax authority will agree, in which case penalties could also apply.

We expect to incur additional expenses in complying with corporate governance and public disclosure requirements.

Changing laws, regulations, and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations, and Nasdaq National Market rules, are creating uncertainty for companies such as ours. These new or changed laws, regulations, and standards are subject to varying interpretations in many cases due to their lack of specificity and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, our efforts to comply with evolving laws, regulations, and standards have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. In particular, our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our required assessment of our internal control over financial reporting and our external auditors audit of that assessment has required the commitment of significant financial and managerial resources. We expect these efforts to require the continued commitment of significant resources. In addition, it has become more difficult and more expensive for us to obtain director and officer liability insurance. Further, our board members, chief executive officer, and chief financial officer could face an increased risk of personal liability in connection with the performance of their duties. As a result, we may have difficulty attracting and retaining qualified board members and executive officers, which could harm our business. If our efforts to comply with new

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or changed laws, regulations, and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, our reputation may be harmed.

Future changes in financial accounting standards or practices may cause adverse unexpected revenue fluctuations and affect our reported results of operations.

A change in accounting standards or practices could have a significant effect on our reported results of operations. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred and may occur in the future. Changes to existing rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business. For example, the Financial Accounting Standards Board has issued standards that change U.S. generally accepted accounting principles to require companies including us to recognize all share-based payments to employees, including grants of stock options, in financial statements based on their fair value and eliminates the pro forma footnote disclosures that were allowed as an alternative to financial statement recognition. This requirement, while not affecting our cash flow, will adversely affect our reported financial results and our ability to provide accurate guidance on our future reported financial results as a result of the variability of the factors used to establish the fair value of stock options.

Legislation affecting the markets in which we compete could adversely affect our ability to implement our iAppliance strategy.

Our ability to expand our business may be adversely impacted by future laws or regulations. Our customers products may be subject to laws relating to communications, encryption technology, electronic commerce, e-signatures, and privacy. Any of these laws could be expensive to comply with, and the marketability of our products could be adversely affected.

We must finance the growth of our business and the development of new products, which could have an adverse effect on our operating results.

To remain competitive, we must continue to make significant investments in research and development, marketing, and business development. Our failure to increase sufficiently our net sales to offset these increased costs would adversely affect our operating results.

From time to time, we may seek additional equity or debt financing to provide for funds required to expand our business. We cannot predict the timing or amount of any such requirements at this time. If such financing is not available on satisfactory terms, we may be unable to expand our business or to develop new business at the rate desired and our operating results may suffer. Debt financing increases expenses and must be repaid regardless of operating results. Equity financing could result in additional dilution to existing stockholders.

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Risks Related to the Notes

We increased our leverage as a result of the sale of the notes.

As a result of the sale of the notes, we incurred $125 million of indebtedness. As a result of this indebtedness, our interest payment obligations have increased. Our interest payment obligations on the notes will be $937,500 annually. The degree to which we are now leveraged could adversely affect our ability to obtain further financing for working capital, acquisitions, or other purposes and could make us more vulnerable to industry downturns and competitive pressures. Our ability to meet our debt service obligations will depend upon our future performance, which will be subject to the financial, business, and other factors affecting our operations, many of which are beyond our control.

The notes are senior subordinated, and holders of senior indebtedness will be paid before holders of the notes are paid.

The notes are unsecured and subordinated in right of payment to all of our existing and future senior indebtedness, including any indebtedness under our existing and any future credit facilities. We recently increased the limit under our existing credit facility from $10 million to $15 million. In addition, we may incur new indebtedness, which may be senior to the indebtedness represented by the notes. We are not prohibited from incurring debt, including indebtedness secured by our assets, under the indenture. In the event of our bankruptcy, liquidation, or reorganization or upon acceleration of the notes due to an event of default under the indenture and in certain other events, our assets will be available to pay obligations on the notes only after all of our secured indebtedness and other senior indebtedness has been paid. As a result, there may not be sufficient assets remaining to pay amounts due on any or all of the outstanding notes. See Description of Notes Ranking of Notes.

Our indebtedness is effectively subordinated to the indebtedness of our subsidiaries.

Our cash flow and ability to service our indebtedness, including the notes, depend, in part, upon the cash flow of our subsidiaries and payments of funds by those subsidiaries to us in the form of repayment of loans, dividends, or otherwise. These subsidiaries are separate and distinct legal entities with no legal obligation to pay any amounts due on the notes or to make funds available therefor. In addition, our subsidiaries may become parties to financing arrangements that contain limitations on the ability of our subsidiaries to pay dividends or to make loans or advances to us or otherwise make cash flow available to us. Neither we nor our subsidiaries are prohibited from incurring debt, including senior indebtedness, under the indenture. If we or our subsidiaries incur additional debt or liabilities, our ability to pay our obligations on the notes could be adversely affected. In addition, if we are required to repatriate cash from our foreign subsidiaries or affiliates to service or repay the notes, we will incur additional income taxes from the repatriation.

There are no restrictive covenants in the indenture governing the notes relating to our ability to incur future indebtedness or complete other financial transactions.

The indenture governing the notes does not contain any financial or operating covenants or restrictions on the payment of dividends, the incurrence of indebtedness, transactions with affiliates, incurrence of liens, or the issuance or repurchase of securities by us or any of our subsidiaries. As a result, we may incur additional debt, including secured indebtedness senior to the notes, or indebtedness at the subsidiary level to which the notes would be structurally subordinated. As a part of our strategy, we may use proceeds from this offering to finance potential acquisitions, which may cause us to incur significant indebtedness to which the notes would be subordinate.

A higher level of indebtedness increases the risk that we may default on our debt obligations. We cannot assure you that we will be able to generate sufficient cash flow to pay the interest on our debt or that future working capital, borrowings, or equity financing will be available to pay or refinance such debt. The indenture contains no covenants or other provisions to afford protection to holders of the notes upon the occurrence of a fundamental change except to the extent described under Description of Notes Purchase of Notes at a Holder s Option Upon a Fundamental Change.

We may not have the funds necessary to repay the notes at maturity or purchase the notes at the option of the noteholders or upon a fundamental change as required by the indenture governing the notes.

At maturity, the entire outstanding principal amount of the notes will become due and payable by us. In addition, on December 1, 2009, December 1, 2014, and December 1, 2019, holders of the notes may require us to purchase their notes for cash. Noteholders may also require us to purchase their notes for cash upon a fundamental change as described under Description of Notes Purchase of Notes at a Holder s Option Upon a Fundamental Change. It is possible that we may not have sufficient funds to repay or repurchase the notes when required. No sinking fund is provided for the notes.

Our ability to repurchase the notes for cash upon a fundamental change is limited and holders may not be able to liquidate their investment.

Upon the occurrence of a fundamental change, we will be required to offer to repurchase the notes as described in this prospectus. If a fundamental change occurs, we may not have sufficient funds to repurchase all notes tendered by the holders of the notes as described in this prospectus. The terms of any future credit or other agreements relating to indebtedness may prohibit such purchases. If a fundamental change occurs at a time when we are prohibited from purchasing the notes, we could seek the consent of our lenders to the purchase of the notes or could attempt to refinance the borrowings that contain such prohibition. If we do not obtain such a consent or repay such borrowings, we would remain prohibited from purchasing the notes and an event of default would occur under the notes. The occurrence of an event of default under the notes could lead to the acceleration of all amounts outstanding on the notes and may also trigger cross-default provisions, resulting in the acceleration of our other indebtedness. These events in turn could materially and adversely affect our share price as well as our ability to continue our operations.

The adjustment to the conversion rate of notes that are converted in connection with certain fundamental changes may not adequately compensate note holders for the lost option time value of the notes as a result of that fundamental change.

If any of certain fundamental changes occurs on or prior to December 1, 2009, we will under certain circumstances adjust the conversion rate to provide for the issuance of additional shares of common stock upon any conversion of notes in connection with such fundamental change. The number of additional shares delivered depends on the date when the fundamental change becomes effective and the price paid per share of our common stock in the transaction constituting the fundamental change. See Description of Notes Conversion Rate Adjustments Adjustment to Conversion Rate Upon Certain Fundamental Changes. Although the adjustment to the conversion rate of notes that are converted is designed to compensate note holders for the lost option value of the notes as a result of the fundamental change, this adjustment to the conversion rate is only an approximation of the lost value and may not adequately compensate note holders for the loss. In addition, if a fundamental change occurs after December 1, 2009, or if the applicable price is less than or equal to $36.09 per share or greater than $125.00 per share (in each case, subject to adjustment), then we will not make an adjustment to the conversion rate. Also, a holder may not receive an adjustment to the conversion rate of notes that are converted until the fundamental change repurchase date relating to the applicable fundamental change, or even later, which could be a significant period of time after the date the holder has tendered its notes for conversion.

Some significant restructuring transactions may not constitute a fundamental change, in which case we would not be obligated to offer to repurchase the notes.

The fundamental change provisions will not afford protection to holders of the notes in the event of certain transactions. For example, certain transactions, such as leveraged recapitalizations, refinancings, restructurings, or acquisitions initiated by us, would not constitute a fundamental change requiring us to repurchase the notes. Certain other transactions may not constitute a fundamental change because they do not involve a change in voting power or beneficial ownership of the magnitude required under the definition of fundamental change. Further, the definition of fundamental change includes a phrase relating to the conveyance, transfer, sale, lease, or disposition of all or substantially all of our assets. There is no precise, established definition of substantially all under applicable law. In the event of any such transaction, holders of the notes would not have the right to require us to repurchase the notes, even though each of these transactions could increase the amount of our indebtedness or otherwise adversely affect our capital structure or credit ratings, thus adversely affecting the holders of the notes.

Upon conversion of the notes we will have the right to pay cash in lieu of issuing shares of our common stock.

We may satisfy our conversion obligation to holders by delivering shares of common stock, cash, or a combination of common stock and cash. Accordingly, upon conversion of the notes, holders might not receive any shares of our common stock, or they might receive few shares of common stock relative to the conversion value of the note. Our liquidity may also be reduced to the extent we are required to deliver cash rather than shares of common stock, such as when there is a fundamental change or other right to force us to redeem the notes. In addition, if we elect to settle upon conversion of the notes in cash or a combination of cash and our common stock, settlement will be delayed until the 28th trading day following our receipt of the holder s conversion notice, unless the cash settlement averaging period is extended under certain circumstances or the holder submits its conversion notice within 30 trading days prior to maturity. In addition, because the amount of cash or common stock that a holder will receive in these circumstances will be based on the sale price of our common stock for an extended period between the conversion date and such settlement date, holders will bear the market risk with respect to the value of the common stock for such extended period. See Description of Notes Conversion Procedures.

The conversion rate of the notes may not be adjusted for all dilutive events.

The conversion rate of the notes is subject to adjustments for certain events, including the issuance of stock dividends on our common stock; the issuance of rights or warrants; subdivisions or combinations of our common stock; distributions of capital stock, indebtedness, or assets; cash dividends; and issuer tender or exchange offers as described under Description of Notes Conversion Rate Adjustments. The conversion rate may not be adjusted for other events that may adversely affect the trading price of the notes or the common stock into which such notes may be convertible.

If a principal conversion settlement election is not made, our earnings per share on a diluted basis could decrease as a result of the inclusion of all the shares into which the notes are convertible in the calculation of earnings per share.

We may elect to satisfy our obligations upon conversion of the notes by delivering to holders of notes shares of our common stock, cash, or a combination of cash and common stock as described under Description of Notes Conversion Procedures Settlement Upon Conversion. If a principal conversion settlement election is not made, our earnings per share on a diluted basis could decrease as a result of the inclusion of all the shares into which the notes are convertible in the calculation of earnings per share in accordance with generally accepted accounting principles. Our ability to satisfy our conversion obligations by paying cash may be limited under the terms of credit agreements to which we may then be subject.

If a principal conversion settlement election is made, we may not have sufficient funds to pay the cash settlement upon conversion.

If we make a principal conversion settlement election, upon conversion of the notes, we will be required to pay the principal amount of such notes in cash. If a significant number of holders were to tender their notes for conversion at any given time, we may not have the financial resources available to pay the principal amount in cash on all such notes tendered for conversion.

We may issue securities that could dilute your ownership.

We may decide to raise additional funds through public or private debt or equity financing to fund our operations. If we raise funds by issuing equity securities, the percentage ownership of our current stockholders will be reduced and the new equity securities may have rights prior to those of the common stock issuable upon conversion of the notes. We may not obtain sufficient financing on terms that are favorable to you or us. We may delay, limit, or eliminate some or all of our proposed operations if

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adequate funds are not available. We may also issue equity securities as consideration for acquisitions we may make.

The notes may not be rated or may receive a lower rating than anticipated.

We have not sought, and do not intend to seek, a rating on the notes, and we believe it is unlikely that the notes will be rated. However, if one or more rating agencies rate the notes and assign the notes a rating lower than would be anticipated by investors, or reduce their rating in the future, the market price of the notes and our common stock could be adversely affected.

We may experience significant fluctuations in our stock price, which may significantly affect the trading price of the notes.

Fluctuations in the trading price of our common stock will affect the trading price of the notes. The stock market in general, and the market for shares of technology companies and our company in particular, from time to time have experienced extreme price fluctuations. Often, these changes have been unrelated to the operating performance of the affected companies. In addition, factors such as technological innovations or new product introductions by us, our competitors, or our customers may have a significant effect on the market price of our common stock. Furthermore, quarter-to-quarter fluctuations in our results of operations caused by changes in customer demand, changes in the notebook computer and portable digital music player markets or other factors may have a significant effect on the market price of our common stock. In addition, general market conditions and international political or economic factors unrelated to our performance may affect our stock price. These and other conditions and factors that generally affect the market for shares of technology companies could cause the price of our common stock, and therefore the price of the notes, to fluctuate substantially over short periods.

There is no public market for the notes, which could limit their market price or your ability to sell them for their inherent value.

There is currently no public market for the notes. The notes currently trade on The PORTAL Market. However, no notes sold under this prospectus will trade on The PORTAL Market. We do not intend to list the notes on any national or other securities exchange, or on the Nasdaq National Market. Accordingly, no public market for the notes may develop, and any market that develops may not last.

Even if an active trading market were to develop, the notes could trade at prices that may be lower than the price at which a holder purchased the notes, or holders could experience difficulty or an inability to resell the notes. Future trading prices of the notes will depend on many factors, including prevailing interest rates, the market for similar securities, general economic conditions, and our financial condition, performance, and prospects. Historically, the market for convertible debt has been subject to disruptions that have caused substantial fluctuations in the prices of the securities. Accordingly, you may be required to bear the financial risk of an investment in the notes for an indefinite period of time.

You should consider the U.S. federal income tax consequences of owning notes.

Under the indenture governing the notes, we have agreed, and by acceptance of a beneficial interest in a note, each holder of a note is deemed to have agreed, to treat the notes as indebtedness for U.S. federal income tax purposes that is subject to the Treasury Regulations governing contingent payment debt instruments. For U.S. federal income tax purposes, interest income on the notes will accrue at the rate of 8.50% per year, compounded semi-annually, which rate represents our determination of the yield at which we would issue a comparable noncontingent, nonconvertible, fixed-rate debt instrument with terms and conditions otherwise similar to the notes. A U.S. holder generally will recognize taxable income significantly in excess of interest payments received while the notes are outstanding.

A U.S. holder will also recognize gain or loss on the sale, conversion, exchange, redemption, or retirement of a note in an amount equal to the difference between the amount realized on the sale, conversion, exchange, redemption, or retirement of a note, including the fair market value of our common stock received, and the U.S. holder s adjusted tax basis in the note. Any gain recognized on the sale, conversion, exchange, redemption, or retirement of a note generally will be ordinary interest income; any loss will be ordinary loss to the extent of the interest previously included in income, and thereafter, capital loss. The material U.S. federal income tax consequences of the purchase, ownership, and disposition of the notes are summarized in this prospectus under the heading Material U.S. Federal Income Tax Considerations.

Risks Related to Our Common Stock

The market price of our common stock may be volatile.

The trading price of our common stock could be subject to wide fluctuations in response to various factors, including the following:

- variations in our quarterly results;
- announcements of technological innovations by us or by our competitors;
- introductions of new products or new pricing policies by us or by our competitors;
- acquisitions or strategic alliances by us or by our competitors;
- recruitment or departure of key personnel;
- the gain or loss of significant orders;
- the gain or loss of significant customers;
- changes in the estimates of our operating performance or changes in recommendations by any securities analysts that follow our stock; and
- market conditions in our industry, the industries of our customers, and the economy as a whole.

In addition, stocks of technology companies have experienced extreme price and volume fluctuations that often have been unrelated or disproportionate to these companies operating performance. Public announcements by technology companies concerning, among other things, their performance, accounting practices, or legal problems could cause the market price of our common stock to decline regardless of our actual operating performance.

Our operating results may experience significant fluctuations that could result in a decline in the price of our stock.

In addition to the variability resulting from the short-term nature of our customers commitments, other factors contribute to significant periodic and seasonal quarterly fluctuations in our results of operations. These factors include the following:

- the cyclicality of the markets we serve;
- the timing and size of orders;
- the volume of orders relative to our capacity;
- product introductions and market acceptance of new products or new generations of products;
- evolution in the life cycles of our customers products;
- timing of expenses in anticipation of future orders;
- changes in product mix, including the percentage of dual pointing and single pointing products shipped;

availability of manufacturing and assembly services;

changes in cost and availability of labor and components;

timely delivery of product solutions to customers;

pricing and availability of competitive products;

pressures on gross margins;

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- the absolute and relative levels of corporate enterprise and consumer notebook purchases; and
- changes in economic conditions.

Accordingly, you should not rely on period-to-period comparisons as an indicator of our future performance. Fluctuations in our operating results may result in a decline in the price of our stock.

Continuing uncertainty of the U.S. economy may have serious implications for the growth and stability of our business and may negatively affect our stock price.

The revenue growth and profitability of our business depends significantly on the overall demand in the notebook computer market and in the iAppliance and other electronic device markets. Softening demand in these markets caused by ongoing economic uncertainty may result in decreased revenue or earnings levels or growth rates. The U.S. economy has been weak recently and market conditions continue to be challenging, which has resulted in individuals and companies delaying or reducing expenditures. Further delays or reductions in spending could have a material adverse effect on demand for our products, and consequently on our business, financial condition, results of operations, prospects, and stock price.

Our charter documents and Delaware law could make it more difficult for a third party to acquire us, and discourage a takeover.

Our certificate of incorporation and the Delaware General Corporation Law contain provisions that may have the effect of making more difficult or delaying attempts by others to obtain control of our company, even when these attempts may be in the best interests of our stockholders. Our certificate of incorporation also authorizes our board of directors, without stockholder approval, to issue one or more series of preferred stock, which could have voting and conversion rights that adversely affect or dilute the voting power of the holders of common stock. Delaware law also imposes conditions on certain business combination transactions with interested stockholders. Our certificate of incorporation divides our Board of Directors into three classes, with one class to stand for election each year for a three-year term after the initial election. The classification of directors tends to discourage a third party from initiating a proxy solicitation or otherwise attempting to obtain control of our company and may maintain the incumbency of our Board of Directors, as this structure generally increases the difficulty of, or may delay, replacing a majority of directors. Our certificate of incorporation authorizes our Board of Directors to fill vacancies or newly created directorships. A majority of the directors then in office may elect a successor to fill any vacancies or newly created directorships.

Our stockholders rights plan may adversely affect existing stockholders.

Our stockholders rights plan may have the effect of deterring, delaying, or preventing a change in control that might otherwise be in the best interests of our stockholders. In general, stock purchase rights issued under the rights plan become exercisable when a person or group acquires 15% or more of our common stock or a tender offer or exchange offer of 15% or more of our common stock is announced or commenced. After any such event, our other stockholders may purchase additional shares of our common stock at 50% of the then-current market price. The rights will cause substantial dilution to a person or group that attempts to acquire us on terms not approved by our board of directors. The rights should not interfere with any merger or other business combination approved by our board of directors since the rights may be redeemed by us at $0.01 per stock purchase right at any time before any person or group acquires 15% or more of our outstanding common stock. The rights expire in August 2012.

Sales of large numbers of shares could adversely affect the price of our common stock.

All of the 26,135,918 shares outstanding as of December 31, 2004 are eligible for resale in the public markets. Of these shares, 1,339,188 shares held by affiliates are eligible for resale in the public markets subject to compliance with the volume and manner of sale rules of Rule 144 or 701 under the Securities Act and the balance of the shares are eligible for resale in the public markets either as unrestricted shares or pursuant to Rule 144(k). In general, under Rule 144 as currently in effect, any person (or persons whose shares are aggregated for purposes of Rule 144) who beneficially owns restricted securities with respect to which at least one year has elapsed since the later of the date the shares were acquired from us,

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or from an affiliate of ours, is entitled to sell within any three-month period a number of shares that does not exceed the greater of 1% of the then outstanding shares of our common stock and the average weekly trading volume in common stock during the four calendar weeks preceding such sale. Sales under Rule 144 also are subject to certain manner-of-sale provisions and notice requirements and to the availability of current public information about us. Rule 701, as currently in effect, permits our employees, officers, directors, and consultants who purchase shares pursuant to a written compensatory plan or contract to resell these shares in reliance upon Rule 144, but without compliance with specific restrictions. Rule 701 provides that affiliates may sell their Rule 701 shares under Rule 144 without complying with the holding period requirement and that non-affiliates may sell their shares in reliance on Rule 144 without complying with the holding period, public information, volume limitation, or notice provisions of Rule 144. A person who is not an affiliate, who has not been an affiliate within three months prior to sale, and who beneficially owns restricted securities with respect to which at least two years have elapsed since the later of the date the shares were acquired from us, or from an affiliate of ours, is entitled to sell such shares under Rule 144(k) without regard to any of the volume limitations or other requirements described above. Sales of substantial amounts of common stock in the public market could adversely affect prevailing market prices.

We have also registered an aggregate of $100,000,000 of common stock and preferred stock for issuance in connection with acquisitions, which shares generally will be freely tradeable after their issuance under Rule 145 of the Securities Act, unless held by an affiliate of the acquired company, in which case such shares will be subject to the volume and manner of sale restrictions of Rule 144 discussed above. The issuance or subsequent sale of these shares in the public market could adversely affect prevailing market prices.

We have registered for offer and sale the shares of common stock that are reserved for issuance pursuant to our outstanding stock option plans and available for issuance pursuant to our employee stock purchase plan. Shares issued after the effective date of such registration statements upon the exercise of stock options or pursuant to the employee stock purchase plan generally will be eligible for sale in the public market, except that affiliates will continue to be subject to volume limitations and other requirements of Rule 144. The issuance of such shares could depress the market price of our common stock.

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USE OF PROCEEDS

We will not receive any proceeds from the sale by any selling securityholder of the notes or the common stock issuable upon conversion of the notes.

DIVIDEND POLICY

We currently intend to retain our earnings for the development of our business. We have never paid any cash dividends since our inception, and we do not anticipate paying any cash dividends in the future. Furthermore, our credit facility with Silicon Valley Bank prohibits us from paying dividends without the bank s consent if we have any borrowings outstanding under that facility.

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PRICE RANGE OF COMMON STOCK

Our common stock has been listed on the Nasdaq National Market under the symbol SYNA since January 29, 2002. Prior to that, there was no public market for our common stock. The following table sets forth for the periods indicated the high and low sales prices of our common stock as quoted on the Nasdaq National Market.

	High	Low
Year ended June 30, 2003:		
First quarter	$ 8.74	$ 3.52
Second quarter	$ 9.08	$ 3.13
Third quarter	$ 8.60	$ 5.75
Fourth quarter	$13.96	$ 6.55
Year ended June 30, 2004:		
First quarter	$14.90	$ 9.23
Second quarter	$15.94	$10.41
Third quarter	$22.42	$13.32
Fourth quarter	$21.00	$14.64
Year ended June 30, 2005:		
First quarter	$21.00	$13.53
Second quarter	$40.00	$20.42
Third quarter (through March 25, 2005)	$41.19	$20.80

On March 25, 2005, the last reported sale price of our common stock on the Nasdaq National Market was $23.85 per share.

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RATIO OF EARNINGS TO FIXED CHARGES

Set forth below is information concerning our ratio of earnings to fixed charges on a consolidated basis for the periods indicated. This ratio shows the extent to which our business generates enough earnings after the payment of all expenses other than interest to make the required interest payments on the notes.

For purposes of computing the ratio of earnings to fixed charges, earnings consist of income before income taxes and fixed charges. For the year ended June 30, 2000, earnings are calculated before equity in losses of affiliated company. Fixed charges consist of interest expense and the portion of rent expense we believe represents the interest component of such rent expense.

	Years Ended June 30,					Six Months Ended December 31,	
	2000	**2001**	**2002**	**2003**	**2004**	**2003**	**2004**
	(in thousands, except for ratios)					(unaudited)	
Fixed Charges:							
Interest expense	$ 159	$ 183	$ 197	$ 155	$ 134	$ 68	$ 177
Portion of rent expense deemed to represent interest	194	236	242	325	358	193	206
Total fixed charges	$ 353	$ 419	$ 439	$ 480	$ 492	$ 261	$ 383
Earnings:							
Net income (loss)	$(2,007)	$ 810	$ 9,400	$ 7,718	$12,992	$5,768	$14,155
Equity in losses of affiliated company	2,712						
Income taxes	120	180	5,056	4,344	7,934	3,610	9,281
Fixed charges	353	419	439	480	492	261	383
Total earnings for computation of ratio	$ 1,178	$1,409	$14,895	$12,542	$21,418	$9,639	$23,819
Ratio of earnings to fixed charges	3.3	3.4	33.9	26.1	43.5	36.9	62.2
Ratio of earnings to fixed charges as adjusted(1)					10.1	9.1	21.1

(1) The ratio of earnings to fixed charges as adjusted assumes the issuance of the notes as of July 1, 2003.

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DESCRIPTION OF NOTES

The notes were issued under an indenture dated as of December 7, 2004 between Synaptics Incorporated, as issuer, and American Stock Transfer & Trust Company, as trustee. Initially, the trustee is also the paying agent and conversion agent. The notes and the shares of common stock issuable upon conversion of the notes are covered by a registration rights agreement. You may request a copy of the notes, the indenture, and the registration rights agreement from the trustee.

The following description is a summary of the material provisions of the notes, the indenture, and the registration rights agreement. It does not purport to be complete. This summary is subject to and is qualified by reference to all the provisions of the indenture, including the definitions of certain terms used in the indenture, and to all provisions of the registration rights agreement. The terms of the notes include those provided in the indenture, those made a part of the indenture by reference to the Trust Indenture Act of 1939, as amended, and those provided in the registration rights agreement. You should read the notes, the indenture, and the registration rights agreement because they, and not this description, define your rights as a holder of the notes.

As used in this Description of Notes section, references to Synaptics, us, we, and our refer solely to Synaptics Incorporated and not to a its current or future subsidiaries.

Brief Description of the Notes

The notes:

- consist of an aggregate principal amount of $125 million;
- were sold at an issue price of 100% of the principal amount of the notes, which is $1,000 per note, plus accrued interest, if any, from December 7, 2004;
- bear interest at an annual rate of 0.75% of the principal amount, from the issue date to, but excluding, December 1, 2024, payable semi-annually, in arrears, on June 1 and December 1 of each year, commencing on June 1, 2005;
- accrue contingent interest, which may be payable as set forth below under Description of Notes Contingent Interest ;
- will bear additional interest or convert into additional shares if we fail to comply with certain obligations as set forth below under Description of Notes Registration Rights ;
- are our unsecured senior subordinated obligations and rank junior in right of payment to all of our existing and future senior indebtedness, equally in right of payment with all of our existing and future indebtedness or other obligations that are not, by their terms, either senior or subordinated to the notes, and senior in right of payment to all of our future indebtedness that, by its terms, is subordinated to the notes, and are effectively subordinated to all of our existing and future secured indebtedness to the extent of the assets securing such indebtedness and structurally subordinated to all existing and future indebtedness and other liabilities of our subsidiaries;
- may be converted by the holders into shares of our common stock, initially at a conversion rate of 19.7918 shares of common stock per $1,000 principal amount of notes, which represents an initial conversion price of approximately $50.53 per share, under the following circumstances:
  - during any calendar quarter commencing after December 31, 2004, if the last reported sale price of our common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding calendar quarter is greater than or equal to 120% of the applicable conversion price on such last trading day;
  - on or after January 1, 2020;
  - if we have called the notes for redemption; or

during prescribed periods, upon the occurrence of specified corporate transactions or fundamental changes described under Description of Notes Conversion Rights Conversion Upon Specified Corporate Transactions or Fundamental Changes ;

provided that we may satisfy our conversion obligation in cash, shares of common stock, or a combination of cash and shares of common stock;

are redeemable by us in whole or in part at any time on or after December 1, 2009, upon a specified notice period, at a redemption price equal to 100% of the principal amount of the notes to be redeemed plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the redemption date;

are subject at the holders option to repurchase by us upon a fundamental change of our company, as described under Description of Notes Purchase of Notes at a Holder s Option Upon a Fundamental Change, and on December 1 of 2009, 2014, and 2019, in each case at a purchase price equal to 100% of the principal amount of the notes to be repurchased plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the repurchase date;

are currently trading on The PORTAL Market; and

are due on December 1, 2024, payable in cash in an amount equal to $1,000 per note, plus accrued and unpaid interest (including contingent interest and additional interest, if any) unless earlier converted, redeemed by us at our option, or repurchased by us at the holders option.

The indenture does not contain any financial covenants and does not restrict us from paying dividends, incurring additional indebtedness, or issuing or repurchasing other securities. In addition, our subsidiaries are not restricted under the indenture from incurring additional indebtedness. The indenture also does not protect the holders of notes in the event of a highly leveraged transaction or a fundamental change, as defined below, of our company, except to the extent described below under Description of Notes Purchase of Notes at a Holder s Option Upon a Fundamental Change.

No sinking fund is provided for the notes.

The notes are issued in book-entry form only in denominations of $1,000 principal amount and whole multiples thereof. Beneficial interests in the notes are shown on, and transfers will be effected only through, records maintained by DTC, or its nominee, and any such interests may not be exchanged for certificated securities, except in limited circumstances.

The holders of notes may not sell or otherwise transfer notes or the shares of common stock issuable upon conversion of the notes, except in compliance with the provisions set forth below under Transfer Restrictions and Description of Notes Registration Rights.

Payments on the Notes

We maintain an office or agency in the city of New York, where we will pay the principal and premium, if any, on the notes and where holders may present their notes for conversion, registration of transfer, or exchange for other denominations, which is currently the principal corporate trust office of the trustee presently located at 59 Maiden Lane, Plaza Level, New York, New York 10038.

Except as provided below, we will pay interest (including contingent interest and additional interest, if any) on:

global notes to DTC in immediately available funds;

any certificated notes having an aggregate principal amount of $5.0 million or less by check mailed to the holders of those note