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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM 8-K/A  
(Amendment No. 1)**

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**CURRENT REPORT  
PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

**July 31, 2020  
Date of Report (Date of earliest event reported)**

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**SYNAPTICS INCORPORATED**

(Exact Name of Registrant as Specified in Its Charter)

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**DELAWARE**  
(State or Other Jurisdiction  
of Incorporation)

**000-49602**  
(Commission  
File Number)

**77-0118518**  
(IRS Employer  
Identification No.)

**1251 McKay Drive  
San Jose, California 95131**  
(Address of Principal Executive Offices) (Zip Code)

**(408) 904-1100**  
(Registrant's Telephone Number, Including Area Code)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$.001 per share	SYNA	The Nasdaq Global Select Market

Indicate by check mark whether the registrant is an emerging growth company as defined in as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

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

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## Explanatory Note

As previously disclosed by Synaptics Incorporated (the “Company” or “Synaptics”) under Item 2.01 of its Current Report on Form 8-K filed on July 31, 2020 (the “Original 8-K”), the Company completed the previously announced merger of Falcon Merger Sub, Inc., a Washington corporation and a wholly owned subsidiary of the Company (“Merger Sub”) with and into DisplayLink Corp., a Washington corporation (“DisplayLink”), with DisplayLink continuing as the surviving corporation and a wholly owned subsidiary of the Company (the “Merger”). The Company completed the Merger pursuant to the terms of the Agreement and Plan of Merger (the “Merger Agreement”) by and among the Company, Merger Sub, DisplayLink, certain holders of equity securities of DisplayLink that became parties to the Merger Agreement by execution of a Joinder Agreement (the “Sellers”) and Shareholder Representative Services LLC, a Colorado limited liability company, solely in its capacity as the representative, agent and attorney-in-fact of the Sellers.

This Current Report on Form 8-K/A amends the Original 8-K to file the financial information required by Items 9.01(a) and 9.01(b) of Form 8-K.

### Item 9.01. Financial Statements and Exhibits.

#### (a) *Financial Statements of Business Acquired.*

The audited consolidated financial statements of DisplayLink and subsidiaries as of and for the year ended December 31, 2019, and the notes related thereto are attached hereto as Exhibit 99.1 and are incorporated herein by reference.

The unaudited condensed consolidated balance sheet of DisplayLink and subsidiaries, as of June 30, 2020, and December 31, 2019, the unaudited condensed consolidated statements of operations, statement of stockholders’ equity and cash flows for the six-month periods ended June 30, 2020 and 2019, and the notes related thereto, are attached hereto as Exhibit 99.2 and are incorporated herein by reference.

#### (b) *Pro Forma Financial Information.*

The required unaudited pro forma financial information for Synaptics, after giving effect to the acquisition of DisplayLink and adjustments described in such pro forma financial information, as of and for the fiscal year ended June 27, 2020 is attached hereto as Exhibit 99.3 and is incorporated herein by reference.

#### (d) *Exhibits.*

Exhibit No.	Description
23.1	<a href="#">Consent of PricewaterhouseCoopers LLP</a>
99.1	<a href="#">Audited consolidated financial statements of DisplayLink and subsidiaries, as of and for the year ended December 31, 2019, and the notes related thereto</a>
99.2	<a href="#">Unaudited condensed consolidated balance sheet of DisplayLink and subsidiaries, as of June 30, 2020, and December 31, 2019, the unaudited condensed consolidated statements of operations, statement of stockholders’ equity and cash flows for the six-month periods ended June 30, 2020 and 2019, and the notes related thereto</a>
99.3	<a href="#">Unaudited pro forma financial information for Synaptics, after giving effect to the acquisition of DisplayLink, as of and for the fiscal year ended June 27, 2020</a>
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: October 9, 2020

SYNAPTICS INCORPORATED

By: /s/ Dean Butler

Dean Butler

Senior Vice President and Chief Financial Officer

CONSENT OF INDEPENDENT AUDITORS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-193469 and 333-219713), Form S-4 (No. 333-115274), and Form S-8 (Nos. 333-170401, 333-193470, 333-221585, 333-228118, 333-233338, and 333-234437) of Synaptics Incorporated of our report dated October 9, 2020 relating to the financial statements of DisplayLink Corp., which appears in this Current Report on Form 8-K.

/s/ PricewaterhouseCoopers LLP  
Cambridge, United Kingdom  
October 9, 2020

**DisplayLink Corp.**

*Consolidated Financial Statements for the Year Ended  
December 31, 2019 and Independent Auditors' Report*

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**Report of Independent Auditors**

To the Management and Directors of DisplayLink Corp.,

We have audited the accompanying consolidated financial statements of DisplayLink Corp. and its subsidiaries, which comprise the consolidated balance sheet as of December 31, 2019, and the related consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of changes in stockholders' equity, and consolidated statement of cash flows for the year then ended.

***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DisplayLink Corp. and its subsidiaries as of December 31, 2019, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**/s/ PricewaterhouseCoopers LLP  
Cambridge, United Kingdom  
October 9, 2020**

**DISPLAYLINK CORP.**  
**Consolidated Balance Sheet as of December 31, 2019**

	2019 \$
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	10,532,686
Short term investments	92,199,545
Inventories	5,347,269
Accounts receivable	8,216,615
Current income taxes receivable	2,791,012
Prepaid expenses and other current assets	8,101,970
Total current assets	<u>127,189,097</u>
PROPERTY AND EQUIPMENT – Net	8,393,273
OTHER INTANGIBLE ASSETS – Net	4,410,152
NON-CURRENT DEFERRED TAX ASSET	6,831,413
<b>TOTAL ASSETS</b>	<u><u>146,823,935</u></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	4,249,995
Accrued expenses and other current liabilities	11,267,607
Total current liabilities	<u>15,517,602</u>
Other non-current liabilities	<u>1,423,009</u>
<b>TOTAL LIABILITIES</b>	<u>16,940,611</u>
<b>COMMITMENTS AND CONTINGENCIES (NOTE 14)</b>	
<b>STOCKHOLDERS' EQUITY (NOTE 11)</b>	
Common Stock (Nil par value, Authorized 310,300,000 shares; issued 23,267,998 shares)	—
Preferred stock (Nil par value, Authorized 9,500,000 shares; issued 1,378,713 shares)	—
Convertible preferred stock (Nil par value, Authorized 260,868,277 shares; issued 255,910,170 shares)	—
Additional paid in capital	114,045,165
Accumulated retained earnings	19,101,397
Accumulated other comprehensive loss	(3,263,238)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u>129,883,324</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u><u>146,823,935</u></u>

See accompanying notes to these consolidated financial statements

**DISPLAYLINK CORP.****Consolidated Statement of Operations for the year ended December 31, 2019**

	2019 \$
Net revenues	93,664,289
Cost of sales	<u>(21,751,420)</u>
Gross profit	71,912,869
OPERATING EXPENSES	
Research and development	(54,030,889)
Sales and marketing	(7,850,305)
General and administrative	(12,919,984)
Amortization of intangible assets	<u>(2,550,234)</u>
Loss from operations	(5,438,544)
Interest and other income	2,691,731
Foreign currency exchange gains	<u>3,094,147</u>
Net income before income taxes	347,334
Income tax benefit	<u>238,847</u>
Net income	<u><u>586,181</u></u>

**Consolidated Statement of Comprehensive Income for the year ended December 31, 2019**

	2019 \$
Net income	586,181
Currency translation adjustment, net	<u>(12,384)</u>
Total comprehensive income	<u><u>573,797</u></u>

See accompanying notes to these consolidated financial statements



**DISPLAYLINK CORP.**  
**Consolidated Statements of Changes in Stockholders' Equity**  
**Year Ended December 31, 2019**

	Convertible Preferred Stock										Preferred Stock	Additional Paid-in Capital Amount	Accumulated retained earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Common Stock	Series A	Series B	Series B-1	Series B-2	Series C	Series C-1	Series D	Series D-1	Series D-2					
	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares				
<b>BALANCE – December 31, 2018</b>	<b>23,732,464</b>	<b>7,081,042</b>	<b>24,907,134</b>	<b>38,698,189</b>	<b>13,726,901</b>	<b>51,377,889</b>	<b>36,900,369</b>	<b>47,824,830</b>	<b>35,393,816</b>	<b>1,378,713</b>	<b>82,973,646</b>	<b>18,515,216</b>	<b>(3,250,854)</b>	<b>98,238,008</b>	
Net income	—	—	—	—	—	—	—	—	—	—	—	586,181	—	586,181	
Currency translation adjustment, net	—	—	—	—	—	—	—	—	—	—	—	—	(12,384)	(12,384)	
Company repurchase of common stock	(464,476)	—	—	—	—	—	—	—	—	—	(3,563)	—	—	(3,563)	
Stock based compensation expense, including \$nil reduction of related tax benefits	—	—	—	—	—	—	—	—	—	—	31,075,082	—	—	31,075,082	
<b>BALANCE – December 31, 2019</b>	<b>23,267,988</b>	<b>7,081,042</b>	<b>24,907,134</b>	<b>38,698,189</b>	<b>13,726,901</b>	<b>51,377,889</b>	<b>36,900,369</b>	<b>47,824,830</b>	<b>35,393,816</b>	<b>1,378,713</b>	<b>114,045,165</b>	<b>19,101,397</b>	<b>(3,263,238)</b>	<b>129,883,324</b>	

See accompanying notes to these consolidated financial statements

**DISPLAYLINK CORP.****Consolidated Statement of Cash flows for the year ended December 31, 2019**

	2019 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
NET INCOME	586,181
<i>Adjustments to reconcile net income from operations to cash provided by operating activities:</i>	
Depreciation	2,067,761
Amortization	2,550,234
Net loss on disposal of property and equipment	679,900
Stock-based compensation	31,075,082
Fair value revaluation of warrants	(616,654)
Interest earned on short term investments	159,773
Unrealized foreign exchange gains	(2,561,112)
Deferred tax asset movement	(2,303,614)
<b>CHANGES IN OPERATING ASSETS AND LIABILITIES:</b>	
Inventories, net	(526,190)
Accounts receivable	1,697,432
Current income tax receivable/liability	(4,450,932)
Prepaid expenses and other non-current and current assets	(5,108,503)
Accounts payable	2,116,424
Accrued expenses and other liabilities	48,438
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>25,414,220</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of property and equipment	(6,576,886)
Purchase of intangible assets	(3,158,257)
Purchases of short term investments	(185,311,382)
Maturities and sales of short term deposits	171,500,000
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(23,546,525)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Company repurchase of common stock	(3,563)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<u>(3,563)</u>
<b>EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS</b>	<u>(42,021)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,822,111
<b>CASH AND CASH EQUIVALENTS</b>	
At beginning of year	8,710,575
At end of year	<u>10,532,686</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>	
Interest received	2,234,848
Polish net tax payments	<u>65,699</u>

See accompanying notes to these consolidated financial statements

**1. ORGANIZATION AND OPERATION OF THE COMPANY**

DisplayLink Corp. was incorporated in the State of Washington on June 27, 2003, under the name Newnham Technology, Inc. and subsequently changed its name to DisplayLink Corp. on November 2, 2006. The first stock certificates for the founder shares were issued on December 16, 2003.

DisplayLink Corp. and its wholly owned subsidiaries (“the Company”) is a leading fabless semiconductor and software provider whose products enable any device (mobile, tablet, PC) to connect to any display using standard interfaces such as USB, Wi-Fi and Ethernet. The Company’s solutions benefit from changing trends in the enterprise IT market such as growth of mobile devices, the consumerization of IT, the emergence of bring your own device (“BYOD”) and the increasing use of multi-screen computing. In addition, the Company’s technology is currently being extended to meeting room solutions and mobile entertainment. The Company operates on a worldwide basis through its wholly owned and controlled UK and Polish subsidiaries and the majority of its turnover is with the original design manufacturers (ODM’s) and distributor customers in Asia.

**2. IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

**Revenue Recognition**— In May 2014, the FASB issued ASU 2014-09 “Revenue from Contracts with Customers”. In order to determine the appropriate amount of revenue to be recognized, entities should identify the contract(s) with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the price to the performance obligations and then recognize revenue when the entity satisfies a performance obligation. This guidance is effective for the Company beginning in fiscal year 2019.

The Company adopted the new standard on January 1, 2019 on a modified retrospective basis. The adoption of ASC 606 has not resulted in any change to the accounting for sales revenue.

**Leases**— In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-02”). This guidance revises existing practice related to accounting for leases under ASC Topic 840 Leases (“ASC 840”). ASU 2016-02 will require lessees to recognize most leases on their balance sheet as a right-of-use asset and a lease liability. The lease liability will be equal to the present value of lease payments and the right-of-use asset will be based on the lease liability, subject to adjustment such as for initial direct costs. For income statement purposes, the new standard retains a dual model similar to ASC 840, requiring leases to be classified as either operating or finance. For lessees, operating leases will result in straight-line expense (similar to current accounting by lessees for operating leases under ASC 840). In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842) Targeted Improvements, which provides an additional transition method that allows entities to initially apply the new standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption without restating prior periods. For private companies, the leasing standard will be effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022, and early adoption is permitted. The Company intends to adopt the requirements of the new standard via a cumulative-effect adjustment without restating prior periods. The Company is quantifying the impact that this standard has on its leases however, the expectation is that the standard will have a material impact on our consolidated balance sheet but will not have a significant impact on our condensed consolidated statements of income or cash flows. The most significant impact will be the recognition of ROU assets and lease liabilities for operating leases.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Preparation**— The consolidated financial statements and accompanying notes are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America.

These financial statements were prepared on the going concern basis.

**DISPLAYLINK CORP**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

**Basis of Consolidation** — The consolidated financial statements include the financial statements of DisplayLink Corp. and its wholly owned subsidiaries DisplayLink (UK) Limited and DisplayLink (Poland) Sp z.o.o. All intercompany accounts and transactions have been eliminated on consolidation.

**Use of Estimates**—Preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company evaluates these estimates and judgments on an on-going basis and bases its estimates on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances. The results of these estimates form the basis for the making of judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Items subject to such estimates and assumptions includes the valuation of shares and share options issued to employees and non-employees for the purposes of determining the amount of expense to be recognized in the statement of operations as the shares of the Company are not readily marketable and the recognition of deferred tax assets which depends on our generating sufficient U.S. and certain foreign taxable income in future years to obtain a benefit from the utilization of those deferred tax assets on our tax returns. Accordingly, the amount of deferred tax assets considered realizable may increase or decrease when we reevaluate the underlying basis for our estimates of future U.S. and foreign taxable income. Actual results may differ from these estimates under different assumptions or conditions.

**Concentration of Credit Risk**—The Company's receivables are concentrated in a relatively few number of customers, most of whom are based in Asia, and as a result, the Company maintains individually significant receivable balances with these customers. If the financial condition or operations of these customers deteriorate substantially, the Company's operating results could be adversely affected. In addition, the Company performs periodic evaluations of its customers' financial condition, but generally does not require collateral for sales on credit. The Company's historical credit losses have been minimal and well within management's expectations and the carrying value of the Company's accounts receivable approximates fair value.

In 2019, 7 customers accounted for 97% of revenues, with 3 customers accounting for 40%, 23%, and 20% of revenues. As of December 31, 2019, 3 customers accounted for 39%, 25%, and 15% of net accounts receivable. Therefore, a significant change in the liquidity or financial position of any of these customers could make it more difficult for the Company to collect its accounts receivable.

Financial instruments that potentially subject the company to concentration of credit risk consist of cash and short term investments. The Company deposits cash with credit worthy financial institutions. The Company has not experienced losses to date on its deposits of cash, and accordingly believes minimal credit risk exists.

**Cash and Cash Equivalents**—The Company considers all short-term, highly liquid investments with an original maturity of less than three months at the time of purchase to be cash equivalents. Cash and cash equivalents consist of funds held in checking and money market accounts.

**Short Term Investments** — These comprise deposits held with banks with original maturities of three months or more but less than one year when purchased. All of the Company's short-term investments are classified as investments which are recorded at amortized cost, which approximates to fair value.

**Fair Value of Financial Instruments** - The carrying values of the Company's financial instruments and short term investments approximate their fair values due to the short period of time to maturity or repayment. Our financial assets and liabilities are valued using market prices on less active markets (Level 2) and also at fair value without observable market values, which requires a high level of judgment (Level 3).

Warrant liabilities represent freestanding warrants and other similar instruments that are outstanding and exercisable into Company's convertible preferred stock at the option of the warrant holder, which are

**DISPLAYLINK CORP**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

redeemable. The warrants are subject to re-measurement at each balance sheet date and any changes in fair value are recognized in the Consolidated Statement of Operations as a component of Interest and other income / (expense). The Company will continue to adjust the liability for changes in fair value until the earlier of the exercise or expiration of the warrants or the completion of a liquidation event.

**Revenue Recognition**—The Company’s product revenues consist of sales of ASIC (application specific integrated circuit) chips to original design manufacturers (ODMs) and distributors, located throughout the world, but primarily in Asia. The Company considers customer purchase orders, which in most cases are governed by customer sales agreements, to be the contracts with a customer. The customer sales agreements, which are derived from a single master sales agreement, stipulate that all product shipments are made on ex-works terms from our logistics warehouse in Hong Kong, and it is at the point that shipment is made on this basis that revenue is recognised. A further consideration in determining whether recognition is appropriate is the customer’s ability to pay. Robust procedures are in place such that payment from customers at the future due date is probable. Furthermore, no recent history of bad debt losses exists within the company. In 2019 99.8% of sales made were to ODMs and distributors located in Asia.

The Company recognizes revenue from product sales when obligations under the terms of a contract with the customer are satisfied; generally, this occurs with the transfer of control of the goods to customers. These contracts with customers consist of the supply of product which represent single performance obligations that are satisfied upon transfer of control of the product to the customer at a point in time.

The length of payment terms varies by customer, but none extend beyond 60 days, and the default terms are 30 days.

The Company has no significant history of product returns with trivial amounts being returned, and as such no provision has been made for such matter.

No significant judgments or estimates are typically required when accounting for revenue.

Contract assets and liabilities – The Company normally does not have contract assets, which are primarily unbilled accounts receivable that are conditional on something other than the passage of time. Where the Company has invoiced the customer but either not fulfilled its contracted obligations or has not transferred the control of the product to the customer, revenue is deferred and included within contract liabilities on the balance sheet.

Shipping and handling costs - The Company records costs related to shipping and handling of products in cost of sales.

**Property and Equipment**—Property and equipment are stated at cost net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Maintenance and repair cost are charged to expense as incurred. The useful lives of the Company’s property and equipment are set out below:

Computer equipment	-	2 years straight line
Computer software	-	3 years straight line
Furniture and equipment	-	4 years straight line
Production tooling	-	3 years straight line
Leasehold improvements	-	Over the shorter of the remaining useful life of the lease or the life of the leasehold improvement

**Intangible Assets** – ASC 350, *Intangibles – Goodwill and Other*, requires that intangible assets are amortized over their respective estimated useful life (this is 3 years for all current intangible assets) and reviewed for impairment in accordance with ASC 360, *Property, Plant and Equipment*, whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

**Inventories** – Inventories are stated at the lower of cost and net realizable value on a first-in, first-out basis. Cost is comprised of direct materials, direct labor costs and allocated overheads that have been incurred in bringing the inventories to their current location and condition. Net realisable value is the estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal, and transportation. The Company provides for obsolete inventory based on its forecast demand, which takes into account the outlook on uncertain events such as market and economic conditions, technology changes and new product introductions.

**Impairment of Assets** – The Company evaluates long-lived assets (including finite-lived intangible assets) for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. An asset or asset group is considered impaired if its carrying amount exceeds the future undiscounted net cash flows that the asset or asset group is expected to generate. If an asset or asset group is considered to be impaired, the impairment to be recognized is calculated as the amount by which the carrying amount of the asset or asset group exceeds its fair market value. Estimates of future cash flows attributable to our long-lived assets require significant judgment and are based on our historical and anticipated results and are subject to many factors. Factors considered important which could trigger an impairment review include significant negative industry or economic trends, significant loss of customers and changes in the competitive environment. There were no triggering events that would require us to perform long-lived assets impairment analysis in the year ended December 31 2019.

**Research and Development**—The Company accounts for software development costs in accordance with ASC 985, *Software*, under which certain software development costs incurred subsequent to the establishment of technological feasibility are capitalized and amortized over the estimated lives of the related products. During the year ended December 31, 2019, all software development costs were charged to research and development expense in the Consolidated Statement of Operations as all costs were incurred prior to the establishment of technological feasibility.

Research and development expenses include costs directly attributable to the conduct of research and development programs, including the cost of salaries, payroll taxes, employee benefits, materials, supplies, depreciation on and maintenance of research equipment, the cost of services provided by outside contractors, and the allocable portions of facility costs, such as rent, utilities, insurance, repairs and maintenance, depreciation, and general support services.

From time to time the Company acquires licenses to patented technology for use in the development of future products. These acquired licenses are capitalized providing that they have alternative future uses. To meet the criteria of alternative future use, it should be reasonably expected (greater than a 50% chance) that the Company will use the asset acquired in the alternative manner and anticipates economic benefit from that alternative use; and the Company's use of the asset acquired is not contingent on further development of the asset subsequent to the acquisition date (that is, the asset can be used in the alternative manner in the condition in which it existed at the acquisition date).

**Operating Leases** – The Company recognizes rent expense on a straight line basis over the term of the lease. The difference between rent expense and rent paid is recorded as accrued rent in accrued expenses and other current liabilities within the consolidated balance sheet.

**Foreign Currency Translation and Transactions**—The functional currency of the Company's UK subsidiary, DisplayLink (UK) Limited, is US dollars, and that of the Company's Polish subsidiary, DisplayLink (Poland) Sp z.o.o., is Polish Zloty, the local currency. Assets and liabilities are translated into US dollars at the rate of exchange existing at the balance sheet date. Income statement amounts are translated into US dollars at the average exchange rates for the period. Changes resulting from translation adjustments are included as a component of accumulated other comprehensive income in the accompanying Consolidated Balance Sheets. Foreign currency transaction gains and losses are included in the Consolidated Statement of Operations. The consolidated financial statements are reported in US Dollars.

*Advertising and sales promotion costs* – These costs are expensed as incurred.

*Income Taxes*—The Company accounts for income taxes using the asset and liability method, which requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the financial statements or tax returns. Deferred tax liabilities are recognized for future taxable amounts and deferred tax assets are recognized for future deductions and operating loss carry-forwards, net of a valuation allowance to reduce net deferred tax assets to amounts that are more likely than not to be realized. The measurement of current and deferred tax assets and liabilities is based on provisions of enacted tax laws; the effects of future changes in tax laws or rates are not anticipated.

The Company operates in various tax jurisdictions and is subject to audit by various tax authorities. The Company follows the provisions of ASC 740-10 “Accounting for Uncertainty in Income Taxes”, that prescribes a comprehensive model for the recognition, measurement, presentation and disclosure in financial statements of any uncertain tax positions that have been taken or expected to be taken on a tax return. It is the Company’s policy to include penalties and interest expense related to income taxes as a component of other expense and interest expense, respectively, as necessary. Changes in facts and circumstances could result in material changes to the amounts recorded for such tax contingencies (see Note 10).

*Stock-Based Compensation*—ASC 718 *Compensation – Stock Compensation* requires the cost resulting from all share-based payment transactions to be recognized in the financial statements. ASC 718 established fair value as the measurement objective in accounting for share-based payment arrangements and requires companies to apply a fair value based measurement method in accounting for share-based payment transactions with employees.

The fair value of stock options is determined as of the grant date using the Black-Scholes valuation model. Such value is recognized as expense over the service period, net of estimated forfeitures, using the straight line method under ASC 718.

*Comprehensive Income*—As defined by ASC 220-10, comprehensive income includes all changes in equity during a period from non-owner sources, including foreign currency translation gains and losses arising from the translation of financial statements of overseas subsidiaries.

*Pension Schemes*—The Company operates a defined contribution savings plan in the U.S. which qualifies under Section 401(k) of the Internal Revenue Code. The UK subsidiary operates a defined contribution pension scheme for its employees, the assets of which are held separately from those of the Company. There is no intention to terminate either of these schemes. Annual contributions are charged to the Consolidated Statement of Operations. The amount contributed in the year ended December 31, 2019 was \$2,033,521.

**4. FAIR VALUE MEASUREMENTS**

The table below presents the Company’s assets and liabilities measured at fair value on a recurring basis as at December 31, 2019 and December 31, 2018.

	As at December 31, 2019		
	Level 2 \$	Level 3 \$	Total \$
<b>Financial Assets</b>			
Short term investments – bank deposits	92,199,545	—	92,199,545
<b>Total Financial Assets</b>	<b>92,199,545</b>	<b>—</b>	<b>92,199,545</b>
<b>Financial Liabilities</b>			
Preferred stock warrants	—	2,122,607	2,122,607
<b>Total Financial Liabilities</b>	<b>—</b>	<b>2,122,607</b>	<b>2,122,607</b>

The carrying values of the Company’s financial instruments, including cash equivalents and short term investments approximate their fair values due to the short period of time to maturity or repayment. Fair value is defined as the exchange price that would be received for an asset or an exit price paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The current accounting guidance for fair value measurements defines a three-level valuation hierarchy for disclosures as follows:

*Level 1* — Observable inputs, such as quoted prices in active markets for identical assets or liabilities.

*Level 2* — Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

*Level 3* — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Short term investments are comprised of bank deposits with maturities of up to 1 year. Because of this, the carrying amounts of the Company’s short term investments approximate fair value, and these are level II financial instruments. The value at December 31, 2019 was \$92,199,545.

Warrants for preferred stock are valued using the Black Scholes model (see note 12 for more details). These financial instruments are considered a level III measurement. The value at December 31, 2019 was \$2,122,607, with unrealized gains recognized in earnings as interest income.



**5. PROPERTY AND EQUIPMENT, NET**

Property and equipment, net consisted of the following:

	2019 \$
Computer equipment	7,235,315
Computer software	165,885
Production tooling	4,813,054
Leasehold improvements	4,128,740
Furniture and equipment	1,567,548
Property and equipment, at cost	17,910,542
Less accumulated depreciation	(9,517,269)
Property and equipment, net	<u>8,393,273</u>

The depreciation charge for the year ended December 31, 2019 was \$2,067,761.

At December 31, 2019 there was \$1,213,047 of additions to property and equipment, net included within accrued expenses, of which \$573,600 was production tooling and \$639,447 was leasehold improvements.

**6. OTHER INTANGIBLE ASSETS, NET**

Intangible assets, net consisted of the following:

	Cost \$	Amortization \$	Net Intangibles \$
Balance at December 31, 2018	13,866,904	(7,693,085)	6,173,819
Additions in the year	786,567		786,567
Amortization Charge	—	(2,550,234)	(2,550,234)
Balance at December 31, 2019	<u>14,653,471</u>	<u>(10,243,319)</u>	<u>4,410,152</u>

Intangible assets relating to intellectual property rights acquired from third parties are capitalized and amortized over the useful economic lives of the respective license agreements, being 3 years. The company determined that these intangible assets had alternative future use at the time of the purchase and thus met the capitalization criteria. The amortization charge in the year ended December 31, 2019 was \$2,550,234. The amortization expense is estimated to be \$2,324,323 for the year ending December 31, 2020, \$2,009,760 for the year ending December 31, 2021 and \$76,069 for the year ended December 31, 2022.

A number of intangible assets were acquired through long term purchase agreements. At December 31, 2019, \$3,320,361 remained outstanding on such agreements.

**7. INVENTORIES**

Inventories consist of the following:

	2019 \$
Finished goods	2,703,095
Work in progress	271,823
Raw materials	2,372,351
	<u>5,347,269</u>

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**8. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities consist of the following:

	2019
	\$
Accrued payroll and compensation	1,630,295
Rebate provision	1,756,004
Flexible spending account non-capital liabilities	2,144,485
Other liabilities	918,507
Other accrued expenses	2,348,708
Fair value of preferred stock warrants	Note 11 2,122,607
Income tax liability	Note 10 347,000
	<u>11,267,607</u>

The movement in the year of the liability relating to fair value of preferred stock warrants is as follows:

	\$
Fair value at December 31, 2018	2,739,261
Change in fair value recorded in interest expense	(616,654)
Fair value at December 31, 2019	<u>2,122,607</u>

**9. NON-CURRENT LIABILITIES**

Non-current liabilities consist of the following:

	2019
	\$
Other liabilities	<u>1,423,009</u>
	<u>1,423,009</u>

The Other Liabilities balance relates to the long-term portion of the extended credit liability associated with purchase of IP in connection with the development of integrated circuits. The short-term element of this liability is included within other liabilities in Note 8 (Accrued expenses and other current liabilities). The total liability at December 31, 2019 is \$3,320,361.

**10. INCOME TAXES**

Net income before income taxes consisted of the following:

	2019
	\$
United States	84,228
Foreign	263,106
Net income before income taxes	<u>347,334</u>

The following is a summary of the significant components of income tax benefits attributable to current operations.

	2019 \$
Research and development tax credits	1,229,758
Income tax charge as a result of GILTI rules	(3,228,826)
Foreign income tax	(65,699)
Deferred tax	2,303,614
Income tax (expense)/benefit, net	<u>238,847</u>

During 2019, the focus on research and development continued and a taxable loss is expected, thus resulting in a tax receivable balance of \$2,791,012 in the consolidated balance sheet. This represents the 2018 and the 2019 receivable balances of which the 2018 balance was received in early 2020.

The income tax liability of \$347,000 relates to Federal income tax payable as a result of the new “GILTI” rules enacted in late 2017 as part of the Tax Cuts and Jobs Act. The tax is payable in respect of the Company’s GILTI profits, which is its pro rata share of its non-US subsidiaries’ aggregate net tested income over a 10% return on tangible fixed assets of those entities, both of which are determined under US tax principles. A deduction of 50% of that amount is allowed in calculating the Company’s taxable income. During 2019 the majority of the charge of \$3,228,826 was paid in installments during the year.

The income tax benefit differs from the federal statutory rate as follows:

	2019 \$
Provision at U.S. federal statutory tax rate	72,940
Non-deductible share based compensation charge	6,525,767
GILTI rate differential	(3,299,354)
Foreign R&D tax credit	(1,299,758)
Movement in deferred tax asset	(2,303,614)
Other differences	(4,828)
Income tax benefit	<u>(238,847)</u>

The following is a summary of the significant components of the Company’s net deferred tax assets:

	2019 \$
<b>Deferred tax assets:</b>	
Net operating loss carry forwards	4,310,256
Timing differences on share based payment charges	3,331,005
Total deferred tax assets	<u>7,641,261</u>
<b>Deferred tax liabilities:</b>	
Fixed assets and other	(809,848)
Total deferred tax liabilities	<u>(809,848)</u>
Less: Valuation allowance	—
Net deferred tax assets	<u>6,831,413</u>

The Company assesses whether a valuation allowance should be established against its deferred tax asset based on the consideration of all evidence, both positive and negative, using a “more likely than not” standard.

The gross total deferred tax balance at December 31, 2019 comprised \$NIL for DisplayLink Corp, and \$6,831,413 for the UK subsidiary. No valuation allowance was applied to either the asset for DisplayLink Corp or for the UK subsidiary, as utilisation of the net operating losses in full is foreseen as more likely than not.

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The assumed tax rates for the purposes of calculating deferred tax are 21% - US Federal tax rate, 17% UK corporation tax rate (for net operating loss carry forwards) and 10% UK patent box rate (for timing differences on share based payment charges).

As of December 31, 2019, the Company had no US federal net operating losses (NOLs). The Company has foreign net operating loss carry-forwards of \$25,354,448 which have no expiration date, although there are some limitations in their use. The UK NOLs are not subject to reduction provided the UK company continues in the same line of business.

The Company is subject to taxation in the United States, UK and Poland. In the United States, the tax years from 2013 to 2018 are still open for investigation by the Federal tax authorities, and the tax years from 2015 to 2018 are still open for the California tax authorities. In the UK the tax years 2018 to 2019 are still open for investigation by the tax authorities. In Poland, the tax years 2017 to 2019 are still open for investigation by the tax authorities.

The Company is not currently under examination by any tax authorities and there are no positions for which it is reasonably possible that could cause unrecognized tax benefits (UTB) to significantly increase. During 2019, the Company was charged a penalty of \$126,536 due to failure to pay proper estimated US tax on time relating to the tax year 2018. The company disputes this penalty and has filed a response with the IRS. In addition it overpaid US tax by \$247,779 relating to the 2018 tax year due to a difference between estimated and actual tax returns. The US tax payments relating to the 2019 tax year were reduced taking into account the overpayment less the penalty. No further taxation interest or penalties have been incurred in either of the years ending December 31, 2019 or 2018.

Within the US, the Company is subject to taxation in California. It has carried out analysis of whether it is likely to be subject to taxation in any other states and has concluded that it is more likely than not that it is not subject to tax in any other states.

**11. STOCKHOLDERS' EQUITY**

**Common Stock** — The Company has authorized the issuance of up to 331,900,000 shares of common stock. As of December 31, 2019, the Company had issued 23,267,988 shares of common stock. The holder of each share of common stock had the right to one vote for each such share and is entitled to notice of any shareholders' meeting in accordance with the bylaws of the Company. There are no redemption rights.

**Preferred Stock**— As of December 31, 2019, the Company's preferred stock consisted of the following:

	Shares Authorized	Issued and Outstanding	Liquidation Amount (\$)
Series D-2	9,500,000	1,378,713	—
<b>Balance - December 31, 2019</b>	<b>9,500,000</b>	<b>1,378,713</b>	<b>—</b>

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**Convertible Preferred Stock**— As of December 31, 2019, the Company’s preferred stock consisted of the following:

	Shares Authorized	Issued and Outstanding	Liquidation Amount (\$)
Series A	7,081,042	7,081,042	2,605,115
Series B	24,907,134	24,907,134	6,000,129
Series B-1	38,698,189	38,698,189	13,250,260
Series B-2	13,726,901	13,726,901	4,700,091
Series C	51,377,889	51,377,889	27,250,832
Series C-1	37,177,122	36,900,369	8,000,000
Series D	52,506,184	47,824,830	41,473,694
Series D-1	35,393,816	35,393,816	30,693,517
<b>Balance - December 31, 2019</b>	<b>260,868,277</b>	<b>255,910,170</b>	<b>133,973,638</b>

**Warrants** — During the year ended December 31, 2010, immediately after and in connection with the loan agreement (since repaid in full) which was signed between the UK subsidiary and Western Technology Investment (“WTI”), warrants were issued to each of the two WTI funds that were going to lend to the UK subsidiary. The warrants entitled each fund to purchase 1,245,387 shares in the Preferred stock of the Company (either the C-1 preferred stock round or the next preferred stock round at option of WTI).

The total for the two WTI funds is 2,490,775. The warrants can be exercised at any time up to 1 March 2021 (expiration date), giving the warrants a contractual life of 10 years, 5 months.

The initial fair value of these warrants was estimated as \$233,137 based on the Black-Scholes pricing model. As of December 31, 2019, the warrants have been revalued at a fair value of \$2,122,607. Fair values are calculated using a Black Scholes pricing model, with inputs as follows: -

	2019
Market value of underlying stock	\$1.0650
Exercise price	\$ 0.217
Risk free interest rate	1.59%
Expected dividend yield	—
Expected life (in years)	1.2
Expected volatility	40.0%

**Rights and preferences**—The rights and preferences of the outstanding Series A, Series B, Series B-1, Series B-2, Series C, Series C-1, Series D and Series D-1 (“Limited Series Preferred”) and Series D-2 preferred stock are set out in the Company’s Amended and Restated Articles of Incorporation (the “Articles”) dated August 12, 2019 and are given in summary only below:

- a. **Voting Rights**—The holders of each Limited Series Preferred has the right to one vote for each share of common stock into which such Series Preferred could be then converted, and with respect to such vote, such holder has the full voting rights and powers of the holders of common stock.
- b. **Dividends**—Other than dividends on shares of common stock payable in shares of common stock, no dividends may be declared on any class or series of capital stock unless the holders of the then outstanding Series A, Series B, Series B-1, Series B-2, Series C and Series C-1 Preferred stock also

partake in the same dividend distribution. The value of the dividend payable to these Preferred stock holders is determined by the nature of the dividend being declared and the conversion rights attached to the Series Preferred. No dividends shall be accrued or payable on shares of Series D, Series D-1 or Series D-2 Preferred Stock.

- c. *Conversion*—The Limited Series Preferred are convertible into common stock at any time at the option of the holder. The conversion is calculated by dividing the original issue price by a conversion price, to be determined at the time of conversion. Initially the conversion price is the original issue price for each of the Limited Series Preferred stock.

There are provisions in the Articles of Incorporation for adjustment to the applicable conversion price in the event of certain dilutive issuances, splits and combinations (including the issuance of options to purchase or rights to subscribe for common stock) where shares of common stock are issued without consideration or for consideration per share less than the conversion price in place immediately prior to the issuance of additional stock.

- d. *Automatic Conversion*—There will be an automatic conversion of the Limited Series Preferred, at the conversion rate then applicable, in the event of a sale of the Company's common stock by public offering, providing that a) the valuation of the Company is at least \$175,000,000 (provided however that in the event the Warrant is exercised, in part or in full, \$175,000,000 shall be increased by the aggregate consideration received by the corporation pursuant to the exercise of the Warrant) immediately prior to the closing of the public offering and total proceeds (net of underwriting discounts and commissions) is at least \$35,000,000 and b) the shares are subsequently primarily traded on the NASDAQ Stock Market's National Market, the New York Stock Exchange, the London Stock Exchange or another comparable exchange approved by the board of directors. There will also be an automatic conversion of the Limited Series Preferred, at the conversion rate then applicable, upon written agreement or consent of at least 60% of the outstanding shares of the Limited Series Preferred (voting as a single series and on an as-converted to Common Stock basis), provided that the Series D and Series D-1 Preferred stock shall not be converted without the approval of at least 60% of the holders of Series D and Series D-1 Preferred stock (counted together as a single series and on an as-converted to Common Stock basis).

- e. *Liquidation Preference*—A liquidation event is defined in the Articles and broadly includes a) the sale or transfer of substantially all of the assets of the consolidated Company, b) the merger or consolidation of the consolidated Company, or c) the liquidation or winding up of the Company.

In the event of a liquidation event whose value is less than the amount invested by the Series D and Series D-1 stock holders (~\$18.6 million), the holders of Series D and Series D-1 preferred stock will share ratably in the net proceeds in proportion to the amounts originally invested.

In the event of a liquidation event which is greater than \$18.6 million, but less than an amount equal to the liquidation preference for the series D and Series D-1 preferred stock (i.e. four times the amount invested) divided by 85% (~\$87.4 million), the holders of Series D and Series D-1 preferred stock shall be entitled to an amount which linearly trends from the original amount invested at the lower end of this range, to the liquidation preference amount at the upper end of the range. The holders of series D-2 preferred stock are entitled to the balance of the proceeds (i.e. 15%).

In the event of a liquidation event whose value is more than \$87.4 million, a) the holders of Series D and Series D-1 preferred stock then outstanding shall be entitled, ahead of all other classes of stock, to payment of an amount equal to four times the subscription price of the Series D and Series D-1 preferred stock, b) the holders of Series D-2 preferred stock shall be entitled, ahead of all classes of preferred stock except Series D and Series D-1, and ahead of common stock holders, to payment of an amount equal to 15% of the net proceeds, c) the remaining assets legally available for distribution to the Corporation's shareholders shall be distributed among the holders of the Series A, Series B, Series B-1, Series B-2, Series C, Series C-1 preferred stock and Common Stock, pro rata, based on the number of shares of Common Stock held by each (assuming conversion of all such shares into Common Stock at the then applicable Conversion Rates).

- f. *Redemption*—The Series A, Series B, Series B-1, Series B-2, Series C, Series C-1 and Series D-2 preferred stock are not redeemable. Provided that the Company has sufficient funds available for the purpose, and subject to the approval of at least 60% of the holders of Series D and Series D-1 preferred stock, the holders of Series D and Series D-1 preferred stock have the right to redeem their stock at a price equal to the original issue price, plus any declared but unpaid dividends thereon, in 3 annual instalments, commencing 60 days after receipt by the Company, at any time on or after August 28, 2017, of a notice to redeem. In addition, the holders of Series D and Series D-1 preferred stock may redeem all their stock at any time in the event of a) failure by the Company to redeem the Series D and Series D-1 preferred stock in accordance with the above, b) execution of definitive agreements for the sale or merger of the Company, c) a breach of any covenants set out in the documents executed at the time of the completion of the purchase of Series D and Series D-1 preferred stock d) errors in the representations and warranties given at the time of the completion of the purchase of Series D and Series D-1 preferred stock, or e) any voluntary, involuntary insolvency, bankruptcy, receivership or acceleration of material third party obligations or similar.

## **12. STOCK COMPENSATION**

The purpose of the Company's various share-based compensation plans is to attract, motivate, retain, and reward high-quality employees, directors, and consultants by enabling such persons to acquire or increase their proprietary interest in our stock in order to strengthen the mutuality of interests between such persons and our stockholders and to provide such persons with annual and long-term performance incentives to focus their best efforts on the creation of stockholder value. Consequently, the Company determines whether to grant share-based compensatory awards subsequent to the initial award for its employees and consultants primarily on individual performance. The Company's share-based compensation plans with outstanding awards consist of: -

- a. 2004 Enterprise Management Incentive Share Option Scheme (the "EMI Plan") and 2004 Stock Plan
- b. DisplayLink Corp EMI and Unapproved Share Options Plan 2012 and the 2012 Stock Plan (together the 2012 Stock Plans)
- c. DisplayLink Corp EMI and Unapproved Share Options Plan 2015 and the 2015 Stock Plan (together the 2015 Stock Plans).

On March 9, 2004, the Board of Directors approved the 2004 Enterprise Management Incentive Share Option Scheme (the "EMI Plan"). The EMI Plan permits the issuance of United Kingdom incentive and stock options to employees, and directors. The exercise price per share for a stock option will normally be at least the fair market value of a share of stock on the effective date of grant of the option. Options granted will vest over not more than 4 years from the date of grant and expire in not more than 10 years from the date of grant.

The 2004 Stock Plan permits the issuance of U.S. incentive and stock options to employees, consultants and directors. The exercise price per share for an incentive stock option must be at least the fair market value of a share of stock on the effective date of grant of the option. Options granted vest over 4 years and expire in not more than 10 years from the date of grant.

On March 2, 2012, the Board of Directors approved the DisplayLink Corp EMI and Unapproved Share Options Plan 2012 and the 2012 Stock Plan (together the 2012 Stock Plans). These plans permit the issuance of incentive and stock options to employees, consultants and directors. The exercise price per share for an incentive stock option must be at least the fair market value of a share of stock on the effective date of grant

of the option. Options granted vest over 4 years, are only exercisable in the event of a change in control and expired in September 2018. In the event of such a change of control, there is a one-year acceleration of vesting. It is a pre-condition that holders of 2004 EMI Plan and 2004 Stock Plan share options had to forfeit such options in order to be granted options in these new plans. In September 2018, just before the original expiry date of these options, the expiry dates of the majority of options were extended to September 2025.

In July and August 2019 respectively, the Board and shareholders passed resolutions that have effect to the following:

- (i) they amended the exercise conditions of the 2012 Stock Plans to allow all current employee/service providers who have had continuous employment or service in excess of five years to be able to exercise from time to time, depending on their length of service in excess of five years, some or all of their stock options/shares of restricted stock, and
- (ii) they also amended the exercise conditions of the 2012 Stock Plans to allow for all share awards to become additionally exercisable in the event of an initial public offering for the sale of the Company's shares of common stock in a firm commitment underwritten public offering where the pre-money valuation of the Company is at least the sum of \$200,000,000 and
- (iii) an arrangement in the form of a legally binding contract between the Company and each of the holders of D2 Options who are UK taxpayers ("UK D2 Holders") for such UK D2 Holders to be reimbursed for all or a portion of the taxes that would not have applied to the D2 Shares if the D2 Options had remained EMI compliant in accordance with the following terms:
  - a. Each UK D2 Holder will be reimbursed for the amount of the difference between (i) the amount that such UK D2 Holder would have paid in UK taxes had the EMI status of these options not been lost, and (ii) the amount of the UK taxes that such UK D2 Holder would now pay, assuming no increase in the taxation of non-EMI qualified shares after July 17, 2019, Each UK D2 Holder will also be reimbursed for taxes (i.e. the payment from the Company will be grossed up), so that the UK D2 Holder suffers no tax losses from such reimbursement.
  - b. There will be an absolute limit of \$45 million on the Company's total obligation under the Plan (including the cost of all employer's national insurance arising both on the exercise of options, and also on grossed up compensation payments made under the Plan),
  - c. Reimbursement under the Plan shall only be available to a UK D2 Holder if such UK D2 Holder meets all of the following criteria: (i) the D2 Option held by such UK D2 Holder is exercised on a change in control or on or after an IPO; (ii) the UK D2 Holder is an employee on the date of exercise, or the UK D2 Holder's employment has terminated by death or disability, or the Board determines that due to exceptional circumstances the UK D2 Holder should be entitled to reimbursement under the Plan; (iii) no other event having occurred, between the date on which the Plan is adopted and the date the D2Option held by the UK D2 Holder is exercised, which would (had the option retained its favorable tax status as a qualifying EMI option) have resulted in the loss of that status; and (iv) the D2 Option is exercised no later than the earlier of ten years after its grant or its expiry date (currently 2025).

On May 1, 2015, the Board of Directors approved the DisplayLink Corp EMI and Unapproved Share Options Plan 2015 and the 2015 Stock Plan (together the 2015 Stock Plans). These plans permit the issuance of incentive and stock options to employees, consultants and directors. The exercise price per share for an incentive stock option must be at least the fair market value of a share of stock on the effective date of grant of the option. Options granted vest over 4 years, are only exercisable in the event of a change in control and expired in September 2018. In the event of such a change of control, there is a one-year acceleration of vesting for all options granted before April 2018.



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In August 2019, the shareholders amended the exercise conditions of the 2015 Stock Plans to allow all current employee/service providers who have had continuous employment or service in excess of five years to be able to exercise from time to time, depending on their length of service in excess of five years, some or all of their stock options/shares of common stock. Under US GAAP, this change is deemed to be a modification. A modification is deemed to have taken place if there is a change in the vesting conditions. In this case, the previous performance condition, namely that a share option can only be exercised on a change in control, has been replaced by a service condition, namely that a share option may now be exercised by the option holder provided that the requisite service period has been served as governed by eligible vested portion rules. Although the likelihood of any option holder exercising before a change in control event is considered extremely unlikely, as, in the case of a 2012 Stock Plan option holder, he or she would need to put the Company in funds for the substantial payroll taxes that would arise on exercise, because the requirement is within the option-holder's control, this is a non-vesting condition and should not be taken into account in determining whether a modification has taken place.

Therefore, the Company has recognized a charge of \$31,075,082 in the Consolidated Statement of Operations, representing the incremental fair value of the vested options at the modification date in August 2019 versus their original fair value measured at grant date. The revised fair value of D2 options was calculated using the Black-Scholes option pricing model, with inputs as follows: -

Exercise price	\$0.006 – \$0.287
Risk free interest rate	1.40%
Expected dividend yield	—
Expected life (in years)	4 years
Expected volatility	40%

Using these inputs, the revised fair values of D2 stock options ranged from \$4.38 to \$4.65.

In addition, the Board and shareholders also amended the exercise conditions of the 2015 Stock Plans to allow for all share awards to become additionally exercisable in the event of an initial public offering for the sale of the Company's shares of common stock in a firm commitment underwritten public offering where the pre-money valuation of the Company is at least the sum of \$200,000,000.

The Company has computed the value of all options granted during the year ended December 31, 2019. These new options were valued using the Black-Scholes option pricing model, with inputs as follows: -

	2019 (Common)	2018 (Common)	2019 (Series D2)
Exercise price	\$0.00 – \$1.25	\$0.00 - 1.25	\$0.0062
Risk free interest rate	1.61-2.52%	2.32 – 2.62%	2.54%
Expected dividend yield	—	—	—
Expected life (in years)	4 years	1 year	2 years
Expected volatility	40%	45%	40%

Expected volatility was determined based on using an average for comparable publicly traded companies (40%). The expected term of the options represents the period of time that options are expected to be outstanding. The risk-free rates are based upon the typical yields achieved for Treasury Stock with a maturity of 4 years.

Using the Black-Scholes valuation method, the total fair value of options granted during the year ended December 31, 2019 was \$2,866,091.

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A summary of option activity under all stock plans for the period from January 1, 2019 to December 31, 2019 is as follows:

	Number of Options						Options Weighted Average Exercise Price					
	2004 EMI Plan	2004 Stock Plan	2012 EMI Plan	2012 Stock Plan	2015 EMI Plan	2015 Stock Plan	2004 EMI Plan	2004 Stock Plan	2012 EMI Plan	2012 Stock Plan	2015 EMI Plan	2015 Stock Plan
<b>Outstanding - December 31, 2018</b>	<b>100,250</b>	<b>250,000</b>	<b>6,416,387</b>	<b>2,358,244</b>	<b>6,918,757</b>	<b>5,220,581</b>	\$ 0.05	\$0.05	\$ 0.02	\$0.04	\$ 0.86	\$0.22
<i>of which exercisable</i>	100,250	250,000					\$ 0.05	\$0.05				
<i>Granted</i>			273,104		8,909,110	1,113,924			\$ 0.01		\$ 1.23	\$1.25
<i>Lapsed</i>	(31,250)				(921,542)	(82,247)						
<b>Outstanding - December 31, 2019</b>	<b>69,000</b>	<b>250,000</b>	<b>6,689,491</b>	<b>2,358,244</b>	<b>14,906,325</b>	<b>6,252,258</b>	\$ 0.03	\$0.05	\$ 0.02	\$0.04	\$ 1.07	\$0.41
<i>of which exercisable</i>	69,000	250,000	5,978,922	803,066			\$ 0.03	\$0.05				

The aggregate intrinsic value, and the weighted-average remaining contractual term, of options as at December 31, 2019 was as follows: -

	2004 EMI Plan	2004 Stock Plan	2012 EMI Plan	2012 Stock Plan	2015 EMI Plan	2015 Stock Plan
<b>As at December 31, 2019</b>						
Aggregate intrinsic value	\$ 842	\$ 6,200	\$1,660,131	\$106,286	\$ 1,705,741	\$3,607,561
<i>of which exercisable</i>	\$ 842	\$ 6,200			—	
Weighted average remaining contractual term	1.6	1.6	5.7	5.7	5.7	5.7
<i>of which exercisable (in years)</i>	1.6	1.6			—	

During the year ended December 31, 2019, options were granted over 273,104 shares of Series D2 Preferred Stock under the 2012 EMI Plan (during the year ended December 31, 2018 – Nil) at a weighted average exercise price of \$0.0062 per share.

The weighted average exercise price for options granted under the 2015 Stock Plan in the year ended December 31, 2019 was \$1.25, and the exercise price for options granted under the 2015 EMI Plan was \$1.25.

No options from the 2004 EMI Plan were exercised in the year ended December 31, 2019

**DISPLAYLINK CORP**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

A summary of the status of the Company's non-vested options as of December 31, 2019 is set out below: -

	2004 EMI Plan	2004 Stock Plan	2012 EMI Plan	2012 Stock Plan	2015 EMI Plan	2015 Stock Plan
<b>Non-vested Options - January 1, 2019</b>	<u>0</u>	<u>0</u>		<u>0</u>	<u>2,938,158</u>	<u>1,033,867</u>
Granted in year			273,104		8,909,110	1,113,924
Vested in year					(1,557,133)	(657,793)
Lapsed or expired in year					(921,542)	(82,247)
Adjustment						
<b>Non-vested Options - December 31, 2019</b>	<u>0</u>	<u>0</u>	<u>273,104</u>	<u>0</u>	<u>9,368,593</u>	<u>1,407,751</u>

	2004 EMI Plan	Weighted-Average Grant-Date Fair Value	2012 Stock Plan	2015 EMI Plan	2015 Stock Plan
<b>Non-vested Options - January 1, 2019</b>				\$ 0.06	\$ 0.65
Granted in year		\$ 4.89		\$ 0.15	\$ 0.14
Vested in year		\$ 4.89		\$ 0.11	\$ 0.09
Lapsed or expired in year				\$ 0.07	\$ 0.02
Adjustment					
<b>Non-vested Options - December 31, 2019</b>				<u>\$ 0.11</u>	<u>\$ 0.58</u>

The stock compensation expense included within operating expenses in the income statement in accordance with ASC 718-10 in the year ended December 31, 2019 was \$31,075,082 (year ended December 31, 2018 - \$663,416).

The total unrecognized compensation cost related to non-vested options granted under each plan was as follows: -

	2004 EMI Plan	2004 Stock Plan	2012 EMI Plan	2012 Stock Plan	2015 EMI Plan	2015 Stock Plan
<b>As at December 31, 2019</b>						
Total unrecognized compensation cost	—	—	\$3,359,457	\$7,067,946	\$1,680,026	\$3,447,724
Expected weighted-average period of write-off (in years)	—	—	4.0	4.0	4.0	4.0

Cash received from option exercise under all share-based payment arrangements for the year ended December 31, 2019 was \$NIL. No actual tax benefit was realized in the financial statements for the tax deductions from option exercise of the share-based payment arrangements for the years ended December 31, 2019.

At December 31, 2019 there were 2,490,775 preferred stock warrants outstanding and exercisable at an exercise price of \$0.2168 per share. The warrants entitle the holders to either Series Preferred C-1 or any subsequent class of preferred stock (currently Series D Preferred).

**Common Stock**—The Company has reserved the following shares of authorized but unissued common stock as of December 31, 2019: -

Options reserved and available for grant	16,547,469
--	------------

**13. RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2019, there were no transactions with related parties.

**14. COMMITMENTS AND CONTINGENCIES**

Lease arrangements

On March 16, 2006, the Company entered into a lease of one suite of offices in Palo Alto, California. In June 2019, the lease was updated to a 3 year contract with an early termination option after 18 months.

On October 5, 2015, the UK Subsidiary signed a lease agreement for a premises on the Cambridge Science Park. The lease lasts for 15 years but the UK subsidiary has the option to terminate the lease after 10 years. On November 22, 2019, the UK subsidiary entered into a legally binding contract with a third party to transfer to such third party the residue of the term of years remaining on the lease and on January 6, 2020 the UK Subsidiary completed the assignment of the lease.

On August 2, 2019, the UK Subsidiary signed a lease agreement for new premises on the Cambridge Science Park. The lease lasts for 15 years but the UK subsidiary has the option to terminate the lease after 10 years. The rental period commences after a fifteen month rent holiday.

Included below are the amounts payable under these leases until termination. The total future minimum lease payments, for non-cancelable operating leases for all facilities within the Company are as follows:

Fiscal Year	2019 \$
2020	643,761
2021	2,326,995
2022	2,122,281
2023	2,081,338
2024	2,081,338
Thereafter	9,662,558
<b>Total future minimum lease payments</b>	<b><u>18,918,271</u></b>

Total annual rental expense under operating leases for the year ended December 31, 2019 was \$1,519,113.

Commitments

In April 2017, the UK subsidiary entered into a 3-year flexible spend account contract with a third party worth \$3,000,000, payable in 12 equal quarterly installments, within which it is able to purchase intellectual property used in its chip development activities, as well as pay its product royalty obligations. As of December 31, 2019, the UK subsidiary had paid \$2,750,000 on this contract, leaving \$250,000 payable in future years, of which \$250,000 is payable within one year.

In November 2018, the UK subsidiary entered into a 3-year contract with a third party worth \$5,692,050, payable in 12 equal quarterly installments, in order to purchase intellectual property used in its chip development activities. As of December 31, 2019, the UK subsidiary had paid \$2,371,689 on this contract, leaving \$3,320,361 payable in future years, of which \$1,897,352 is payable within one year and \$1,423,009 is payable between one and five years.

Indemnification Provisions

In the ordinary course of business, the Company enters into contractual arrangements under which it agrees to provide indemnification of varying scope and terms to business partners and other parties with respect to losses arising out of the breach of such agreements. In addition, on occasions the Company will agree to provide indemnification with respect to losses arising out of intellectual property infringement claims made by third parties. In these circumstances, payment may be conditional on the other party making a claim pursuant to the procedures specified in the particular contract. Further, the Company's obligations under these agreements may be limited in terms of time and/or amount, and in some instances, the Company may have recourse against third parties for certain payments.

It is not possible to determine the maximum potential loss under these indemnification provisions due to our limited history of prior indemnification claims and the unique facts and circumstances involved in each particular situation.

To date, no significant costs have been incurred, either individually or collectively, in connection with our indemnification provisions.

Contingencies

In the event of a sale of the Company or an IPO, Clydesdale has the evergreen right to an Exit Fee of 1.75% of the excess of net sales proceeds over \$80M. This right arises as a result of a Loan agreement signed with Clydesdale in July 2012. The Director's good faith estimate of this contingency is \$5.5M.

**15. SUBSEQUENT EVENTS**

The Company evaluated subsequent events through October 09, 2020, the date of issuance of these consolidated financial statements and identified the following subsequent events.

**COVID-19**

**The Group**

The health and welfare of the Company's employees is of paramount importance. Travel by employees has been restricted to only those trips that are business-critical and customer visits to our facilities will only be allowed if they too are deemed to be business-critical. The Company's development and support activities are currently unaffected by this situation. The Company has furloughed no employees.

Following a successful trial to test IT infrastructure, "working from home" has been encouraged where this is practicable and, as a result, over 90% of the Company's employees and service providers are currently working from home. There may be some loss of efficiency and project slippage as a result of "working from home", however this is difficult to quantify.

**Supply Chain**

The Company is in regular contact with its supply chain partners, who have reported no material impact due to COVID-19. They are taking extra precautions including prohibiting travel by their employees, customer visits to their facilities and performing temperature checks on all employees entering their facilities. The Company's device production has been largely unaffected by this situation and its supply chain partners have continued to run full shifts, although recent lock-down policies by certain governments in Asia may cause this situation to change. Raw material supplies have been unaffected and transportation between supply chain partners has seen some small delays, but this has not impacted the Company's ability to supply products to its customers on schedule.

**Customers**

The Company's bookings and shipment for the six months ended June 30, 2020 have exceeded budget for the six months to June 30, 2020. Bookings for the remainder of 2020 are in line with management expectations. With many businesses encouraging "working from home", the short-term demand for laptops is expected to rise and, with this, the sale of the Company's products. Over time, the Company may be affected by a slow-down in the global economy that results from this pandemic, but it is not possible, at this stage to quantify this.

**ACQUISITION**

On July 31, 2020, Synaptics Incorporated "Synaptics" completed the previously announced merger of Falcon Merger Sub, Inc., a Washington corporation and a wholly owned subsidiary of Synaptics ("Merger Sub") with and into DisplayLink Corp., a Washington corporation ("DisplayLink"), with DisplayLink continuing as the surviving corporation and a wholly owned subsidiary of Synaptics (the "Merger"). Synaptics completed the Merger pursuant to the terms of the Agreement and Plan of Merger (the "Merger Agreement") by and among Synaptics, Merger Sub, DisplayLink, certain holders of equity securities of DisplayLink that became parties to the Merger Agreement by execution of a Joinder (the "Sellers") and Shareholder Representative Services LLC, a Colorado limited liability company, solely in its capacity as the representative, agent and attorney-in-fact of the Sellers. The aggregate consideration for the Merger consisted of \$305 million in cash, subject to purchase price adjustments at the closing and post-closing. As part of the merger, all outstanding and eligible share options were either exercised and therefore acquired by Synaptics in exchange for consideration or cancelled in exchange for cash consideration, dependent on option scheme. All remaining ineligible share options lapsed and were cancelled. All warrants were settled as part of the merger, the consideration for settlement of the warrants was \$2.6 million. The contingent liability with respect to Clydesdale was also settled for \$5.5 million.

**DIVIDENDS**

On September 18, 2020 the Directors declared and approved a dividend of £113,289,805 which is expected to be partly paid in cash and partly used to settle intercompany loan agreements. Directors expect the dividend to be fully paid within one year from the declaration date.

**DISPLAYLINK CORP.**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET**  
**As at December 31, 2019 and June 30, 2020**

	December 31, 2019 \$	June 30, 2020 \$
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	10,532,686	29,097,995
Short term investments	92,199,545	99,234,654
Inventories	5,347,269	6,126,584
Accounts receivable	8,216,615	10,442,364
Current income taxes receivable	2,791,012	2,520,755
Prepaid expenses and other current assets	8,101,970	7,157,447
Total current assets	<u>127,189,097</u>	<u>154,579,799</u>
PROPERTY AND EQUIPMENT – Net	8,393,273	7,505,013
OTHER INTANGIBLE ASSETS – Net	4,410,152	3,179,892
NON-CURRENT DEFERRED TAX ASSET	6,831,413	8,855,568
<b>TOTAL ASSETS</b>	<u><u>146,823,935</u></u>	<u><u>174,120,272</u></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	4,249,995	4,975,412
Accrued expenses and other current liabilities	11,267,607	13,178,092
Total current liabilities	<u>15,517,602</u>	<u>18,153,504</u>
Other non-current liabilities	1,423,009	474,333
<b>TOTAL LIABILITIES</b>	<u><u>16,940,611</u></u>	<u><u>18,627,837</u></u>
<b>COMMITMENTS AND CONTINGENCIES (NOTE 14)</b>		
<b>STOCKHOLDERS' EQUITY (NOTE 11)</b>		
Common Stock (Nil par value, Authorized 310,300,000 shares; issued 23,267,998 shares at December 31, 2019 and June 30, 2020)	—	—
Preferred stock (Nil par value, Authorized 9,500,000 shares; issued 1,378,713 shares at December 31, 2019 and June 30, 2020)	—	—
Convertible preferred stock (Nil par value, Authorized 260,868,277 shares; issued 255,910,170 shares at December 31, 2019 and June 30, 2020)	—	—
Additional paid in capital	114,045,165	120,628,218
Accumulated retained earnings/(deficit)	19,101,397	37,933,266
Accumulated other comprehensive loss	<u>(3,263,238)</u>	<u>(3,069,049)</u>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u><u>129,883,324</u></u>	<u><u>155,492,435</u></u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u><u>146,823,935</u></u>	<u><u>174,120,272</u></u>

**DISPLAYLINK CORP**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS AND CONDENSED CONSOLIDATED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**For the six-month periods ended June 30, 2019 and June 30, 2020**

**CONSOLIDATED STATEMENT OF OPERATIONS**

	Six-month period ended	
	June 30, 2019	June 30, 2020
	\$	\$
Net revenues	42,748,264	65,056,345
Cost of sales	(10,358,241)	(13,805,227)
Gross profit	<u>32,390,023</u>	<u>51,251,118</u>
<b>OPERATING EXPENSES</b>		
Research and development	15,182,016	25,679,858
Sales and marketing	2,776,937	3,410,027
General and administrative	2,142,544	3,505,558
Amortization of intangible assets	1,290,693	1,242,020
Profit from operations	<u>10,997,833</u>	<u>17,413,675</u>
Interest and other income / (expense)	1,105,393	430,135
Foreign currency exchange gains / (losses)	22,912	(2,388,218)
Net income before income taxes	12,126,138	15,455,592
Income tax benefit	119,424	3,376,277
Net income	<u>12,245,562</u>	<u>18,831,869</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	Six-month period ended	
	June 30, 2019	June 30, 2020
	\$	\$
Net income	12,245,562	18,831,869
Currency translation adjustment, net	6,555	194,189
Total comprehensive income	<u>12,252,117</u>	<u>19,026,058</u>



**DISPLAYLINK CORP**

**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**

For the six-month periods ended June 30, 2019 and June 30, 2020

	Convertible Preferred Stock									Preferred Stock	Additional Paid-in Capital Amount	Accumulated retained earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Common Stock	Series A	Series B	Series B-1	Series B-2	Series C	Series C-1	Series D	Series D-1	Series D-2				
	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares				
<b>BALANCE – December 31, 2018</b>	<u>23,732,464</u>	<u>7,081,042</u>	<u>24,907,134</u>	<u>38,698,189</u>	<u>13,726,901</u>	<u>51,377,889</u>	<u>36,900,369</u>	<u>47,824,830</u>	<u>35,393,816</u>	<u>1,378,713</u>	<u>82,973,646</u>	<u>18,515,216</u>	<u>(3,250,854)</u>	<u>98,23</u>
Net profit	—	—	—	—	—	—	—	—	—	—	—	12,245,562	—	12,24
Currency translation adjustment, net	—	—	—	—	—	—	—	—	—	—	—	—	6,555	—
<b>BALANCE – June 30, 2019</b>	<u>23,732,464</u>	<u>7,081,042</u>	<u>24,907,134</u>	<u>38,698,189</u>	<u>13,726,901</u>	<u>51,377,889</u>	<u>36,900,369</u>	<u>47,824,830</u>	<u>35,393,816</u>	<u>1,378,713</u>	<u>82,973,646</u>	<u>30,760,778</u>	<u>(3,244,299)</u>	<u>110,49</u>

**DISPLAYLINK CORP**
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**
**For the six-month periods ended June 30, 2019 and June 30, 2020**

	Convertible Preferred Stock									Preferred Stock	Additional Paid-in Capital Amount	Accumulated retained earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Common Stock	Series A	Series B	Series B-1	Series B-2	Series C	Series C-1	Series D	Series D-1	Series D-2				
	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares				
<b>BALANCE – December 31, 2019</b>	<b>23,732,464</b>	<b>7,081,042</b>	<b>24,907,134</b>	<b>38,698,189</b>	<b>13,726,901</b>	<b>51,377,889</b>	<b>36,900,369</b>	<b>47,824,830</b>	<b>35,393,816</b>	<b>1,378,713</b>	<b>114,045,165</b>	<b>19,101,397</b>	<b>(3,263,238)</b>	<b>129,883,324</b>
Net profit	—	—	—	—	—	—	—	—	—	—	—	18,831,869	—	18,831,869
Currency translation adjustment, net	—	—	—	—	—	—	—	—	—	—	—	—	194,189	194,189
Stock based compensation expense, including \$nil reduction of related tax benefits	—	—	—	—	—	—	—	—	—	—	6,583,053	—	—	6,583,053
<b>BALANCE – June 30, 2020</b>	<b>23,732,464</b>	<b>7,081,042</b>	<b>24,907,134</b>	<b>38,698,189</b>	<b>13,726,901</b>	<b>51,377,889</b>	<b>36,900,369</b>	<b>47,824,830</b>	<b>35,393,816</b>	<b>1,378,713</b>	<b>120,628,218</b>	<b>37,933,266</b>	<b>(3,069,049)</b>	<b>155,492,435</b>

**DISPLAYLINK CORP**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the six-month periods ended June 30, 2019 and June 30, 2020

	Six-month period ended 30 June, 2019 \$	30 June, 2020 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
NET INCOME	12,245,562	18,831,869
<i>Adjustments to reconcile net income from operations to cash provided by operating activities:</i>		
Depreciation	953,669	1,293,284
Amortization	1,259,542	1,242,020
Net (gain)/loss on disposal of property and equipment	—	91,620
Stock-based compensation	—	6,583,053
Fair value revaluation of warrants	—	430,414
Interest earned on short term investments	(309,031)	(609,690)
Unrealized foreign exchange (gains) / losses	45,245	3,014,050
Deferred tax asset movement	—	(2,024,155)
<b>CHANGES IN OPERATING ASSETS AND LIABILITIES:</b>		
Inventories, net	667,184	(779,316)
Accounts receivable	3,233,898	(2,225,749)
Current income tax receivable/liability	(4,914,208)	273,258
Prepaid expenses and other non-current and current assets	433,644	944,523
Accounts payable	(2,206,992)	725,418
Accrued expenses and other liabilities	429,972	2,883,319
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>11,838,486</u>	<u>30,673,918</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(1,442,827)	(1,629,657)
Purchase of intangible assets	(2,196,036)	(1,207,569)
Purchases of short term investments	(48,000,000)	(40,630,199)
Maturities and sales of short term deposits	47,500,000	32,000,000
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(4,138,863)</u>	<u>(11,467,425)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	—	—
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	(26,933)	(641,184)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>7,672,690</u>	<u>18,565,309</u>
<b>CASH AND CASH EQUIVALENTS</b>		
At beginning of year	8,710,575	10,532,686
At end of year	<u>16,383,265</u>	<u>29,097,995</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest (paid)/received	(796,363)	179,556
Polish net tax payments	44,784	15,203

**1. ORGANIZATION AND OPERATION OF THE COMPANY**

DisplayLink Corp. was incorporated in the State of Washington on June 27, 2003, under the name Newnham Technology, Inc. and subsequently changed its name to DisplayLink Corp. on November 2, 2006. The first stock certificates for the founder shares were issued on December 16, 2003.

DisplayLink Corp. and its wholly owned subsidiaries (“the Company”) is a leading fabless semiconductor and software provider whose products enable any device (mobile, tablet, PC) to connect to any display using standard interfaces such as USB, Wi-Fi and Ethernet. The Company’s solutions benefit from changing trends in the enterprise IT market such as growth of mobile devices, the consumerization of IT, the emergence of bring your own device (“BYOD”) and the increasing use of multi-screen computing. In addition, the Company’s technology is currently being extended to meeting room solutions and mobile entertainment. The Company operates on a worldwide basis through its wholly owned and controlled UK and Polish subsidiaries and the majority of its turnover is with the original design manufacturers (ODM’s) and distributor customers in Asia.

See note 15 “Subsequent Events” for additional information on the sale of Displaylink Corp. to Synaptics Incorporated.

**2. IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

**Leases**—In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-02”). This guidance revises existing practice related to accounting for leases under ASC Topic 840 Leases (“ASC 840”). ASU 2016-02 will require lessees to recognize most leases on their balance sheet as a right-of-use asset and a lease liability. The lease liability will be equal to the present value of lease payments and the right-of-use asset will be based on the lease liability, subject to adjustment such as for initial direct costs. For income statement purposes, the new standard retains a dual model similar to ASC 840, requiring leases to be classified as either operating or finance. For lessees, operating leases will result in straight-line expense (similar to current accounting by lessees for operating leases under ASC 840). In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842) Targeted Improvements, which provides an additional transition method that allows entities to initially apply the new standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption without restating prior periods. For private companies, the leasing standard will be effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022 and early adoption is permitted. The Company intends to adopt the requirements of the new standard via a cumulative-effect adjustment without restating prior periods. The Company is quantifying the impact that this standard has on its leases however, the expectation is that the standard will have a material impact on our consolidated balance sheet but will not have a significant impact on our condensed consolidated statements of income or cash flows. The most significant impact will be the recognition of ROU assets and lease liabilities for operating leases.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Preparation**—The condensed consolidated financial statements and accompanying notes are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America. In the opinion of the Company, the accompanying unaudited condensed financial statements contain all adjustments, consisting of only normal recurring adjustments, necessary for a fair statement of its financial position as of June 30, 2020, and its results of operations and cash flows for the six months ended June 30, 2020 and 2019. The condensed balance sheet at December 31, 2019, was derived from audited annual financial statements but does not contain all of the footnote disclosures from the annual financial statements.

**DISPLAYLINK CORP.**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED NOTES TO THE ACCOUNTS**  
**For the Six Months Ended June 30, 2019 and 2020 and as of December 31, 2019 and June 30, 2020**

These financial statements were prepared on the going concern basis.

**Basis of Consolidation**—The condensed consolidated financial statements include the financial statements of DisplayLink Corp. and its wholly owned subsidiaries DisplayLink (UK) Limited and DisplayLink (Poland) Sp z.o.o. All intercompany accounts and transactions have been eliminated on consolidation.

**Use of Estimates**—Preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company evaluates these estimates and judgments on an on-going basis and bases its estimates on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances. The results of these estimates form the basis for the making of judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Items subject to such estimates and assumptions includes the valuation of shares and share options issued to employees and non-employees for the purposes of determining the amount of expense to be recognized in the statement of operations as the shares of the Company are not readily marketable and the recognition of deferred tax assets which depends on our generating sufficient U.S. and certain foreign taxable income in future years to obtain a benefit from the utilization of those deferred tax assets on our tax returns. Accordingly, the amount of deferred tax assets considered realizable may increase or decrease when we reevaluate the underlying basis for our estimates of future U.S. and foreign taxable income. Actual results may differ from these estimates under different assumptions or conditions.

**Concentration of Credit Risk**—The Company's receivables are concentrated in a relatively small number of customers, most of whom are based in Asia, and as a result, the Company maintains individually significant receivable balances with these customers. If the financial condition or operations of these customers deteriorate substantially, the Company's operating results could be adversely affected. In addition, the Company performs periodic evaluations of its customers' financial condition, but generally does not require collateral for sales on credit. The Company's historical credit losses have been minimal and well within management's expectations and the carrying value of the Company's accounts receivable approximates fair value.

In the six months ended June 30, 2020, 7 customers accounted for 82% of revenues, with three customers accounting for 31%, 16% and 11% of revenues. In the six months ended June 30, 2019, 7 customers accounted for 85% of revenues, with three customers accounting for 36%, 15%, and 14% of revenues. As of June 30, 2020, three customers accounted for 30%, 27%, and 22% of net accounts receivable. Therefore, a significant change in the liquidity or financial position of any of these customers could make it more difficult for the Company to collect its accounts receivable.

Financial instruments that potentially subject the company to concentration of credit risk consist of cash and short-term investments. The Company deposits cash with credit worthy financial institutions. The Company has not experienced losses to date on its deposits of cash, and accordingly believes minimal credit risk exists.

**Revenue Recognition**—Our product revenues consist of sales of (application specific integrated circuit) ASIC chips to original design manufacturers (ODMs) and distributors, located throughout the world, but primarily in Asia. We consider customer purchase orders, which in most cases are governed by customer sales agreements, to be the contracts with a customer. The customer sales agreements, which are derived from a single master sales agreement, stipulate that all product shipments are made on ex-works terms from our logistics warehouse in Hong Kong, and it is at the point that shipment is made on this basis that revenue is recognized. A further consideration in determining whether recognition is appropriate is the customer's ability to pay. Robust procedures are in place such that payment from customers at the future due date is probable. Furthermore, no recent history of bad debt losses exists within the company. In 2020 99.8% of sales made were to ODMs and distributors located in Asia.

The Company recognizes revenue from product sales when obligations under the terms of a contract with the customer are satisfied; generally, this occurs with the transfer of control of the goods to customers. These contracts with customers consist of the supply of product which represent single performance obligations that are satisfied upon transfer of control of the product to the customer at a point in time.

The length of payment terms varies by customer, but none extend beyond 60 days, and the default terms are 30 days.

The Company has no significant history of product returns with trivial amounts being returned, and as such no provision has been made for such matter.

No significant judgments or estimates are typically required when accounting for revenue.

**Contract assets and liabilities** – The Company normally does not have contract assets, which are primarily unbilled accounts receivable that are conditional on something other than the passage of time. Where the Company has invoiced the customer but either not fulfilled its contracted obligations or has not transferred the control of the product to the customer, revenue is deferred and included within contract liabilities on the balance sheet.

**Shipping and handling costs** - The Company records costs related to shipping and handling of products in cost of sales.

**Foreign Currency Translation and Transactions**—The functional currency of the Company’s UK subsidiary, DisplayLink (UK) Limited, is US dollars, and that of the Company’s Polish subsidiary, DisplayLink (Poland) Sp z.o.o., is Polish Zloty, the local currency. Assets and liabilities are translated into US dollars at the rate of exchange existing at the balance sheet date. Income statement amounts are translated into US dollars at the average exchange rates for the period. Changes resulting from translation adjustments are included as a component of accumulated other comprehensive income in the accompanying Consolidated Balance Sheets. Foreign currency transaction gains and losses are included in the Consolidated Statement of Operations. The condensed consolidated financial statements are reported in US Dollars.

**Comprehensive Income**—As defined by ASC 220-10, comprehensive income includes all changes in equity during a period from non-owner sources, including foreign currency translation gains and losses arising from the translation of financial statements of overseas subsidiaries.

#### **4. COVID-19**

The health and welfare of the Company’s employees is of paramount importance. Travel by employees has been restricted to only those trips that are business-critical and customer visits to our facilities will only be allowed if they too are deemed to be business-critical. The Company’s development and support activities are currently unaffected by this situation.

Following a successful trial to test IT infrastructure, working from home has been encouraged where this is practicable and, as a result, over 90% of the Company’s employees and service providers are currently working from home. There may be some loss of efficiency and project slippage as a result of “working from home”, however this is difficult to quantify.

#### **Supply Chain**

The Company is in regular contact with its supply chain partners, who have reported no material impact due to COVID-19. They are taking extra precautions including prohibiting travel by their employees, customer

visits to their facilities and performing temperature checks on all employees entering their facilities. The Company's device production has been largely unaffected by this situation and its supply chain partners have continued to run full shifts, although recent lock-down policies by certain governments in Asia may cause this situation to change. Raw material supplies have been unaffected and transportation between supply chain partners has seen some small delays, but this has not impacted the Company's ability to supply products to its customers on schedule. The Company also is gradually increasing its inventory levels with the objective of having an additional four weeks of finished goods inventory.

#### **Customers**

The Company's bookings and shipment for the six months ended June 30, 2020 have exceeded expectations. With many businesses encouraging working from home, the short-term demand for laptops has risen and, with this, the sale of the Company's products.

### **5. FAIR VALUE MEASUREMENTS**

The carrying values of the Company's financial instruments and short term investments approximate their fair values due to the short period of time to maturity or repayment. The Company's financial assets and liabilities are valued using market prices on less active markets (Level 2) and also at fair value without observable market values, which requires a high level of judgment (Level 3).

Fair value is defined as the exchange price that would be received for an asset or an exit price paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The current accounting guidance for fair value measurements defines a three-level valuation hierarchy for disclosures as follows:

*Level 1* — Observable inputs, such as quoted prices in active markets for identical assets or liabilities.

*Level 2* — Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

*Level 3* — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Short term investments are comprised of bank deposits with maturities of up to 1 year. Because of this, the carrying amounts of the Company's short term investments approximate fair value, and these are level 2 financial instruments. The value at June 30, 2020 was \$99,234,653 and at December 31, 2019 was \$92,199,545.

Warrant liabilities represent freestanding warrants and other similar instruments that are outstanding and exercisable into Company's convertible preferred stock at the option of the warrant holder, which are redeemable. The warrants are subject to re-measurement at each balance sheet date and any changes in fair value are recognized in the Consolidated Statement of Operations as a component of Interest and other income / (expense). The Company will continue to adjust the liability for changes in fair value until the earlier of the exercise or expiration of the warrants or the completion of a liquidation event.

Warrants for preferred stock are valued using the Black Scholes model. These financial instruments are considered a level 13 measurement. The value at June 30, 2020 was \$2,553,021 and at December 31, 2019 was \$2,122,607, with unrealized gains recognized in earnings as interest income.

**DISPLAYLINK CORP.**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED NOTES TO THE ACCOUNTS**  
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The table below presents the Company's assets and liabilities measured at fair value on a recurring basis as at December 31, 2019 and June 30, 2020.

	As at December 31, 2019		
	Level 2 \$	Level 3 \$	Total \$
<b>Financial Assets</b>			
Short term investments – bank deposits	92,199,545	—	92,199,545
<b>Total Financial Assets</b>	<b>92,199,545</b>	<b>—</b>	<b>92,199,545</b>
<b>Financial Liabilities</b>			
Preferred stock warrants	—	2,122,607	2,122,607
<b>Total Financial Liabilities</b>	<b>—</b>	<b>2,122,607</b>	<b>2,122,607</b>
	As at June 30, 2020		
	Level 2 \$	Level 3 \$	Total \$
<b>Financial Assets</b>			
Short term investments – bank deposits	99,234,654	—	99,234,654
<b>Total Financial Assets</b>	<b>99,234,654</b>	<b>—</b>	<b>99,234,654</b>
<b>Financial Liabilities</b>			
Preferred stock warrants	—	2,553,021	2,553,021
<b>Total Financial Liabilities</b>	<b>—</b>	<b>2,553,021</b>	<b>2,553,021</b>



**6. PROPERTY AND EQUIPMENT, NET**

Property and equipment, net consisted of the following:

	Dec 31, 2019 \$	June 30, 2020 \$
Computer equipment	7,235,315	7,505,204
Computer software	165,885	165,885
Production tooling	4,813,054	4,820,731
Leasehold improvements	4,128,740	4,233,060
Furniture and equipment	1,567,548	1,003,093
Property and equipment, at cost	17,910,542	17,727,973
Less accumulated depreciation	(9,517,269)	(10,222,960)
Property and equipment, net	<u>8,393,273</u>	<u>7,505,013</u>

The depreciation charge for the six months ended June 30, 2020 was \$1,293,284 and for the six months ended June 30, 2019 was \$953,669.

At June 30, 2020 there was \$53,932 of additions to property and equipment, net included within accrued expenses, of which all was leasehold improvements.

At December 31, 2019 there was \$1,213,047 of additions to property and equipment, net included within accrued expenses, of which \$573,600 was production tooling and \$639,447 was leasehold improvements.

**7. OTHER INTANGIBLE ASSETS, NET**

Intangible assets, net consisted of the following:

	Cost \$	Amortization \$	Net Intangibles \$
Balance at June 30, 2019	14,491,763	(8,952,626)	5,539,137
Additions in the period	161,708	—	161,708
Amortization Charge	—	(1,290,693)	(1,290,693)
Balance at December 31, 2019	14,653,471	(10,243,319)	4,410,152
Additions in the period	11,760	—	11,760
Amortization Charge	—	(1,242,020)	(1,242,020)
Balance at June 30, 2020	<u>14,665,231</u>	<u>(11,485,339)</u>	<u>3,179,892</u>

Intangible assets relating to intellectual property rights acquired from third parties are capitalized and amortized over the useful economic lives of the respective license agreements, being 3 years. The company determined that these intangible assets had alternative future use at the time of the purchase and thus met the capitalization criteria.

The amortization charge in the six months ended June 30, 2020 and June 30, 2019 were \$1,242,020 and \$1,259,542 respectively. At June 30, 2020 and December 31, 2019 \$2,371,684 and \$3,567,494 respectively remained outstanding on such agreements.

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**8. INVENTORIES**

Inventories are stated at the lower of costs (first-in, first-out method) or net realizable value and consist of the following

	December 31, 2019 \$	June 30, 2020 \$
Finished goods	2,703,095	3,067,290
Work in progress	271,823	223,809
Raw materials	2,372,351	2,835,485
	<u>5,347,269</u>	<u>6,126,584</u>

**9. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities consist of the following:

	December 31, 2019 \$	June 30, 2020 \$
Accrued payroll and compensation	1,630,295	2,122,460
Rebate provision	1,756,004	2,678,633
Flexible spend agreement non-capital liabilities	2,144,485	1,897,351
Other liabilities	918,507	2,108,095
Other accrued expenses	2,348,708	1,468,531
Fair value of preferred stock warrants	2,122,607	2,553,021
Income tax liability	347,000	350,000
	<u>11,267,607</u>	<u>13,178,091</u>

The movement in the liability relating to fair value of preferred stock warrants is as follows:

	\$
Change in fair value recorded in interest expense for the six months ended June 30, 2019	—
Fair value at June 30, 2019	3,241,872
Change in fair value recorded in interest expense for the six months ended June 30, 2020	<u>(430,414)</u>
Fair value at June 30, 2020	2,553,021

**10. NON-CURRENT LIABILITIES**

Non-current liabilities consist of the following:

	December 31, 2019 \$	June 30, 2020 \$
Other liabilities	<u>1,423,009</u>	<u>474,333</u>
	<u>1,423,009</u>	<u>474,333</u>

The Other Liabilities balance relates to the long-term portion of the extended credit liability associated with purchase of IP in connection with the development of integrated circuits. The short-term element of this liability is included within other liabilities in Note 9 (Accrued expenses and other current liabilities). The total liability at June 30, 2020 and December 31, 2019 respectively is \$2,371,684 and \$3,567,494.

**11. INCOME TAXES**

The Company accounts for income taxes using the asset and liability method, which requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the financial statements or tax returns. Deferred tax liabilities are recognized for future taxable amounts and deferred tax assets are recognized for future deductions and operating loss carry-forwards, net of a valuation allowance to reduce net deferred tax assets to amounts that are more likely than not to be realized. The measurement of current and deferred tax assets and liabilities is based on provisions of enacted tax laws; the effects of future changes in tax laws or rates are not anticipated.

The Company operates in various tax jurisdictions and is subject to audit by various tax authorities. The Company follows the provisions of ASC 740-10 "Accounting for Uncertainty in Income Taxes", that prescribes a comprehensive model for the recognition, measurement, presentation and disclosure in financial statements of any uncertain tax positions that have been taken or expected to be taken on a tax return. It is the Company's policy to include penalties and interest expense related to income taxes as a component of other expense and interest expense, respectively, as necessary. Changes in facts and circumstances could result in material changes to the amounts recorded for such tax contingencies.

The income tax credit of \$3,376,277 and \$119,424 for the six months ended June 30, 2020 and June 30, 2019 respectively represented estimated federal, foreign and state income taxes. The effective tax rate for the six months ended June 30, 2020 diverged from the combined U.S. federal and state statutory tax rate primarily because of foreign research and development tax credits and the recognition of deferred tax assets. The effective tax rate for the six months ended June 30, 2019 diverged from the combined U.S. federal and state statutory tax rate primarily because of foreign research and development tax credits, recognition of deferred tax assets largely offset by an income tax charge as a result of GILTI rules.

**DISPLAYLINK CORP.**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED NOTES TO THE ACCOUNTS**  
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The following is a summary of the significant components of the Company's net deferred tax assets:

	December 31, 2019 \$	June 30, 2020 \$
Deferred tax assets:		
Net operating loss carry forwards	4,310,256	4,817,345
Timing differences on share based payment charges	3,331,005	4,780,737
Fixed assets and other	(809,848)	(742,513)
Total deferred tax assets	6,831,413	8,855,569
Less: Valuation allowance	—	—
Net deferred tax assets	6,831,413	8,855,569

The Company assesses whether a valuation allowance should be established against its deferred tax asset based on the consideration of all evidence, both positive and negative, using a "more likely than not" standard.

The gross total deferred tax balance at June 30, 2020 comprised \$998,835 for DisplayLink Corp, and \$7,856,734 for the UK subsidiary and for December 31, 2019 comprised \$280,034 for DisplayLink Corp, and \$6,551,379 for the UK subsidiary. No valuation allowance was applied to either the asset for DisplayLink Corp. or for the UK subsidiary, as utilisation of the net operating losses in full is foreseen as more likely than not.

The assumed tax rates for the purposes of calculating deferred tax are 21% - US Federal tax rate, 19% UK corporation tax rate (for net operating loss carry forwards) and 10% UK patent box rate (for timing differences on share based payment charges).

The Company is subject to taxation in the United States, UK and Poland. In the United States, the tax years from 2013 to 2018 are still open for investigation by the Federal tax authorities, and the tax years from 2015 to 2018 are still open for the California tax authorities. In the UK the tax years 2018 to 2019 are still open for investigation by the tax authorities. In Poland, the tax years 2017 to 2019 are still open for investigation by the tax authorities.

**12. SHARE BASED COMPENSATION**

The purpose of the Company’s various share-based compensation plans is to attract, motivate, retain, and reward high-quality employees, directors, and consultants by enabling such persons to acquire or increase their proprietary interest in the Company’s stock in order to strengthen the mutuality of interests between such persons and our stockholders and to provide such persons with annual and long-term performance incentives to focus their best efforts on the creation of stockholder value. Consequently, the Company determines whether to grant share-based compensatory awards subsequent to the initial award for its employees and consultants primarily on individual performance. The Company’s share-based compensation plans with outstanding awards consist of: -

- a. 2004 Enterprise Management Incentive Share Option Scheme (the “EMI Plan”) and 2004 Stock Plan
- b. DisplayLink Corp EMI and Unapproved Share Options Plan 2012 and the 2012 Stock Plan (together the 2012 Stock Plans)
- c. DisplayLink Corp EMI and Unapproved Share Options Plan 2015 and the 2015 Stock Plan (together the 2015 Stock Plans).

In August 2019, the shareholders amended the exercise conditions of the 2015 Stock Plans to allow all current employee/service providers who have had continuous employment or service in excess of five years to be able to exercise from time to time, depending on their length of service in excess of five years, some or all of their stock options/shares of common stock. Under US GAAP, this change is deemed to be a modification. A modification is deemed to have taken place if there is a change in the vesting conditions. In this case, the previous performance condition, namely that a share option can only be exercised on a change in control, has been replaced by a service condition, namely that a share option may now be exercised by the option holder provided that the requisite service period has been served as governed by eligible vested portion rules. Although the likelihood of any option holder exercising before a change in control event is considered extremely unlikely, as, in the case of a 2012 Stock Plan option holder, he or she would need to put the Company in funds for the substantial payroll taxes that would arise on exercise, because the requirement is within the option-holder’s control, this is a non-vesting condition and should not be taken into account in determining whether a modification has taken place.

Therefore, the Company has recognized a charge of \$31,075,082 in the Consolidated Statement of Operations, representing the incremental fair value of the vested options at the modification date in August 2019 versus their original fair value measured at grant date.

The revised fair value of D2 options was calculated using the Black-Scholes option pricing model, with inputs as follows: -

Exercise price	\$0.006 –
	\$0.287
Risk free interest rate	1.40%
Expected dividend yield	—
Expected life (in years)	4 years
Expected volatility	40%

Using these inputs, the revised fair values of D2 stock options ranged from \$4.38 to \$4.65.

**DISPLAYLINK CORP.****UNAUDITED INTERIM CONDENSED CONSOLIDATED NOTES TO THE ACCOUNTS****For the Six Months Ended June 30, 2019 and 2020 and as of December 31, 2019 and June 30, 2020**

Share-based compensation recognized in our condensed consolidated statement of income was as follows:

	Six months ended	
	June 30, 2019	June 30, 2020
	\$	\$
Research and development	—	6,096,935
Sales and Marketing	—	378,106
General and Administrative	—	108,012
	<u>—</u>	<u>6,583,053</u>

**13. RELATED PARTY TRANSACTIONS**

During the six months ended June 30, 2019 and June 30, 2020, there were no transactions with related parties.

**14. COMMITMENTS AND CONTINGENCIES**

Lease arrangements

The Company occupies certain offices under operating lease arrangements. Leases expire at various dates through to year 2029.

The total future minimum lease payments, for non-cancelable operating leases for all facilities within the Company are as follows:

Fiscal Year	\$
Remainder of 2020	465,043
2021	2,326,995
2022	2,122,281
2023	2,081,338
2024	2,081,338
Thereafter	9,662,558
<b>Total future minimum lease payments</b>	<b>18,739,553</b>

Total rental expense under operating leases for the six months ended June 30, 2020 and June 30, 2019 was \$1,428,411 and \$686,117 respectively.

Commitments

In April 2017, the UK subsidiary entered into a 3-year flexible spend account contract with a third party worth \$3,000,000, payable in 12 equal quarterly installments, within which it is able to purchase intellectual property used in its chip development activities, as well as pay its product royalty obligations. As of December 31, 2019, the UK subsidiary had paid \$2,750,000 on this contract, leaving \$250,000 payable in future years. As of June 30, 2020, the contract had been fully paid.

In November 2018, the UK subsidiary entered into a 3-year contract with a third party worth \$5,692,050, payable in 12 equal quarterly installments, in order to purchase intellectual property used in its chip development activities. As of June 30, 2020, the UK subsidiary had paid \$3,320,365 on this contract, leaving \$2,371,684 payable in future years, of which \$1,897,351 is payable within one year and \$474,333 is payable between one and five years. As of December 31, 2019, the UK subsidiary had paid \$2,371,689 on this contract, leaving \$3,320,361 payable in future years.

Indemnification Provisions

In the ordinary course of business, the Company enters into contractual arrangements under which it agrees to provide indemnification of varying scope and terms to business partners and other parties with respect to losses arising out of the breach of such agreements. In addition, on occasions the Company will agree to provide indemnification with respect to losses arising out of intellectual property infringement claims made by third parties. In these circumstances, payment may be conditional on the other party making a claim pursuant to the procedures specified in the particular contract. Further, the Company's obligations under these agreements may be limited in terms of time and/or amount, and in some instances, the Company may have recourse against third parties for certain payments.

It is not possible to determine the maximum potential loss under these indemnification provisions due to our limited history of prior indemnification claims and the unique facts and circumstances involved in each particular situation.

To date, no significant costs have been incurred, either individually or collectively, in connection with our indemnification provisions.

Contingencies

In the event of a sale of the Company or an IPO, Clydesdale has the evergreen right to an Exit Fee of 1.75% of the excess of net sales proceeds over \$80M. This right arises as a result of a Loan agreement signed with Clydesdale in July 2012. The Directors good faith estimate of this contingency is \$5.5 million.

**15. SUBSEQUENT EVENTS**

**ACQUISITION**

On July 31, 2020, Synaptics Incorporated (“Synaptics”) completed the previously announced merger of Falcon Merger Sub, Inc., a Washington corporation and a wholly owned subsidiary of Synaptics (“Merger Sub”) with and into DisplayLink Corp., a Washington corporation (“DisplayLink”), with DisplayLink continuing as the surviving corporation and a wholly owned subsidiary of Synaptics (the “Merger”). Synaptics completed the Merger pursuant to the terms of the Agreement and Plan of Merger (the “Merger Agreement”) by and among Synaptics, Merger Sub, DisplayLink, certain holders of equity securities of DisplayLink that became parties to the Merger Agreement by execution of a Joinder (the “Sellers”) and Shareholder Representative Services LLC, a Colorado limited liability company, solely in its capacity as the representative, agent and attorney-in-fact of the Sellers. The aggregate consideration for the Merger consisted of \$305 million in cash, subject to purchase price adjustments at the closing and post-closing. As part of the merger, all outstanding and eligible share options were either exercised and therefore acquired by Synaptics in exchange for consideration or cancelled in exchange for cash consideration, dependent on option scheme. All remaining ineligible share options lapsed and were cancelled. All warrants were settled as part of the merger, the consideration for settlement of the warrants was \$2.6 million. The contingent liability with respect to Clydesdale was also settled for \$5.5 million.

**DIVIDENDS**

On September 18, 2020 the Directors declared and approved a dividend of £113,289,805 which is expected to be partly paid in cash and partly used to settle intercompany loan agreements. Directors expect the dividend to be fully paid within one year from the declaration date.



**SYNAPTICS INCORPORATED**  
**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS**

**Introduction to Unaudited Pro Forma Condensed Combined Financial Statements**

On July 17, 2020, Synaptics Incorporated (“Synaptics”) announced that it had entered into an Agreement and Plan of Merger (the “Agreement”) providing for the acquisition of DisplayLink Corp. (“DisplayLink” or “DL”), resulting in DisplayLink becoming a wholly-owned subsidiary of Synaptics (the “Acquisition”). The Acquisition was effective as of July 31, 2020 (“Closing Date”).

The following unaudited pro forma condensed combined balance sheet and statement of operations are presented to give effect to the acquisition of all of the outstanding equity interests of DisplayLink for a purchase price of \$305.0 million, subject to (i) an increase for DisplayLink’s estimated cash and cash equivalents at the closing of the Merger (the “Closing”), (ii) a decrease for DisplayLink’s estimated indebtedness outstanding immediately prior to the Closing, (iii) a decrease for the unpaid portion as of the Closing of certain transaction expenses incurred by DisplayLink, and (iv) an increase or decrease equal to the amount that the estimated working capital of DisplayLink exceeds or falls short, respectively, of a certain specified target working capital set forth in the Merger Agreement, with \$3.1 million of the purchase price held in escrow accounts for the adjustments after Closing and to secure the Seller Parties’ indemnification obligations under the purchase agreement. The unaudited pro forma condensed combined balance sheet and the unaudited pro forma condensed combined statement of operations are hereafter collectively referred to as the “Pro Forma Financial Statements.”

The Pro Forma Financial Statements should be read together with the historical financial statements and related notes, as follows:

- Accompanying notes to the Unaudited Pro Forma Condensed Combined Financial Statements;
- Audited historical consolidated financial statements of Synaptics as of and for the year ended June 27, 2020, included in Synaptics’ Form 10-K for the fiscal year ended June 27, 2020;
- Audited historical consolidated financial statements of DisplayLink and subsidiaries as of and for the year ended December 31, 2019 and the related notes thereto, included in this Form 8-K/A; and
- Unaudited condensed consolidated balance sheet of DisplayLink and subsidiaries, as of June 30, 2020, and December 31, 2019, the unaudited condensed consolidated statements of operations, statements of shareholders’ equity and cash flows for the six-month periods ended June 30, 2020 and June 30, 2019, and the related notes thereto.

The unaudited pro forma condensed combined balance sheet is presented as if the Acquisition had occurred on June 27, 2020. The unaudited pro forma condensed combined statement of operations combines the results of operations of Synaptics and DisplayLink for the fiscal year ended June 27, 2020 and twelve months ended June 30, 2020, respectively, as if the Acquisition had occurred on June 30, 2019. The pro forma information was prepared based on the historical consolidated financial statements of Synaptics and DisplayLink after giving effect to the Acquisition using the acquisition method of accounting and after applying the assumptions, reclassifications and adjustments described in the accompanying notes based on current intentions and expectations relating to the combined business.

The Pro Forma Financial Statements have been prepared for illustrative purposes only and are not intended to represent or be indicative of the consolidated financial position or results of operations in future periods or the results that actually would have been achieved had Synaptics and DisplayLink been a combined company as of and for the respective periods presented. The Pro Forma Financial Statements do not reflect any operating efficiencies, post-Acquisition synergies and/or cost savings that we may achieve with respect to the combined companies. The adjustments to the Pro Forma Financial Statements are based on what we believe are reasonable under the circumstances. The pro forma adjustments are preliminary and have been made solely for the purpose of preparing the Pro Forma Financial Statements.

The preliminary allocation of the purchase price used in the Pro Forma Financial Statements is based upon assets acquired and liabilities assumed through the Acquisition. We have made significant assumptions and estimates in determining the preliminary estimated purchase price and the preliminary allocation of the purchase price in the Pro Forma Financial Statements. These preliminary estimates and assumptions are subject to change as we finalize the acquisition accounting, including the valuations of the net tangible and intangible assets. The final determination of the value of the assets and liabilities acquired will likely differ from these preliminary estimates and the differences could be material.

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The Pro Forma Financial Statements have been compiled from the following sources:

- The financial information of Synaptics has been prepared in accordance with U.S. Generally Accepted Accounting Principles (“U.S. GAAP”) and extracted without adjustment from Synaptics’ audited consolidated balance sheet and statement of operations as of and for the fiscal year ended June 27, 2020, contained in Synaptics’ Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on August 21, 2020.
- The financial information of DisplayLink has been prepared in accordance with U.S. GAAP and derived as follows: a) started with the financial information from DisplayLink’s audited consolidated statement of operations for the fiscal year ended December 31, 2019 and added b) DisplayLink’s unaudited condensed consolidated statement of operations for the six months ended June 30, 2020 less c) DisplayLink’s unaudited condensed consolidated statement of operations for the six months ended June 30, 2019.

SYNAPTICS INCORPORATED

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET

AS OF JUNE 27, 2020  
(in millions)

	Historical		Reclassification Adjustments	Pro Forma Adjustments	Pro Forma Combined As of June 27, 2020	
	Synaptics Incorporated As of June 27, 2020	DisplayLink Corp. As of June 30, 2020				
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 763.4	\$ 29.1	\$ —	\$ (441.0)	3(a)	\$ 349.5
				(2.0)	3(a)	
Short term investments	—	99.2	—	—		99.2
Accounts receivable, net	195.3	10.4	—	—		205.7
Inventory	102.0	6.1	—	18.7	3(b)	126.8
Tax receivables	—	2.5	(2.5)	—		—
Prepaid expenses and other current assets	16.9	7.2	2.5	(0.1)	3(l)	26.5
Total current assets	1,077.6	154.5	—	(424.4)		807.7
Long-term assets:						
Property, plant and equipment, net	84.3	7.5	—	—		91.8
Goodwill	360.8	—	—	91.4	3(c)	452.2
Intangible assets, net	93.4	3.2	—	208.8	3(d)	305.4
Non-current other deferred tax asset	—	8.9	(8.9)	—		—
Non-current other assets	77.7	—	8.9	19.5	3(g)	97.2
				(8.9)	3(e)	
Total assets	\$ 1,693.8	\$ 174.1	\$ —	\$ (113.6)		\$ 1,754.3
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Current liabilities:						
Accounts payable	\$ 60.6	\$ 5.0	\$ —	\$ —		\$ 65.6
Accrued compensation	59.5	—	—	3.7	3(h)	63.2
Income taxes payable	33.0	—	—	—		33.0
Other accrued liabilities	91.0	13.2	—	(1.9)	3(f)	99.7
				(1.5)	3(k)	
				1.5	3(g)	
				(2.6)	3(l)	
Total current liabilities	244.1	18.2	—	(0.8)		261.5
Long-term liabilities:						
Long-term debt	100.0	0.5	—	—		100.5
Convertible notes, net	486.6	—	—	—		486.6
Other long-term liabilities	44.0	—	—	28.8	3(e)	90.8
				18.0	3(g)	
Total liabilities	874.7	18.7	—	46.0		939.4
Equity:						
Common stock	0.1	—	—	—		0.1
Additional paid-in capital	1,340.2	120.6	—	(120.6)	3(i)	1,340.2
Other comprehensive loss	—	(3.1)	—	3.1	3(i)	—
Retained earnings (Deficit accumulated)	701.4	37.9	—	(42.1)	3(j)	697.2
Treasury stock	(1,222.6)	—	—	—		(1,222.6)
Total stockholder's equity	819.1	155.4	—	(159.6)		814.9
Total equity	819.1	155.4	—	(159.6)		814.9
Total liabilities and equity	\$ 1,693.8	\$ 174.1	\$ —	\$ (113.6)		\$ 1,754.3

See notes to unaudited pro forma condensed combined financial statements

SYNAPTICS INCORPORATED

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED JUNE 27, 2020

(in millions, except per share amounts)

	Historical		Reclassification Adjustments	Pro Forma Adjustments		Pro Forma Combined Fiscal Year Ended June 27, 2020
	Synaptics Incorporated Fiscal Year Ended June 27, 2020	DisplayLink Corp. Twelve Months Ended June 30, 2020				
Net revenue	\$ 1,333.9	\$ 116.0	\$ —	\$ —		\$ 1,449.9
Cost of revenue	790.8	25.2	—	—		816.0
Gross margin	543.1	90.8	—	—		633.9
Operating expenses:						
Research and development	302.5	64.5	—	—		367.0
Selling, general, and administrative	127.0	—	22.1	(1.5)	3(m)	147.6
Sales and marketing	—	8.5	(8.5)	—		—
General and administrative	—	14.3	(14.3)	—		—
Acquired intangibles amortization	11.7	2.5	—	49.8	3(n)	64.0
Restructuring costs	33.0	—	—	—		33.0
Total operating expenses	474.2	89.8	(0.7)	48.3		611.6
Operating income	68.9	1.0	0.7	(48.3)		22.3
Interest and other income	7.9	2.0	—	—		9.9
Foreign exchange losses	—	0.7	(0.7)	—		—
Interest expense	(22.5)	—	—	—		(22.5)
Gain on sale of assets	105.1	—	—	—		105.1
Impairment recovery on investments, net	—	—	—	—		—
Income before provision for income taxes and equity investment loss	159.4	3.7	—	(48.3)		114.8
Provision for income taxes	38.6	(3.5)	—	(11.6)	3(o)	23.5
Equity investment loss	(2.0)	—	—	—		(2.0)
Net income	\$ 118.8	\$ 7.2	\$ —	\$ (36.7)		\$ 89.3
Net income per share:						
Basic	\$ 3.54					\$ 2.66 3(p)
Diluted	\$ 3.41					\$ 2.57 3(p)
Shares used in computing net income per share:						
Basic	33.6					33.6 3(p)
Diluted	34.8					34.8 3(p)

See notes to unaudited pro forma condensed combined financial statements

**NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL  
STATEMENTS**

**1. Basis of Presentation and summary of acquisition**

The accompanying Pro Forma Financial Statements are based on the historical consolidated financial statements of Synaptics and DisplayLink after giving effect to the Acquisition using the acquisition method of accounting, as well as certain reclassifications and pro forma adjustments.

In accordance with the acquisition method of accounting for business combinations, the assets acquired and the liabilities assumed will be recorded as of the completion of the Acquisition at their respective fair values. The excess purchase consideration over the fair values of assets acquired and liabilities assumed will be recorded as goodwill.

The preliminary aggregate purchase price of the Acquisition was approximately \$441.0 million in cash, including the defined cash payment of \$305.0 million and adjusted for (i) estimated cash and cash equivalents at Closing (ii) estimated indebtedness outstanding immediately prior to the Closing, (iii) unpaid portion as of the Closing of certain transaction expenses incurred by DisplayLink, and (iv) the amount that the estimated working capital of DisplayLink exceeds or falls short, respectively, of a certain specified target working capital set forth in the Merger Agreement, with \$3.1 million of the purchase price held in escrow accounts for the adjustments after Closing and to secure the Seller Parties' indemnification obligations under the purchase agreement.

Consideration Transferred	(in millions)
Cash payment of Consideration (1)	\$ 305.0
Closing Cash adjustment (2)	134.9
Closing Working Capital adjustment (3)	1.1
<b>Total Purchase Consideration</b>	<b><u>\$ 441.0</u></b>

- (1) Represents cash payment of Consideration for \$305.0 million delineated by the Merger Agreement.
- (2) Represents the Merger Consideration adjustment of Closing Cash delineated by the Merger Agreement.
- (3) Represents the Merger Consideration adjustment of Closing Working Capital delineated by the Merger Agreement.

We identified and recorded the assets acquired and liabilities assumed at their preliminary estimated fair values at the Closing Date and allocated the remaining value of approximately \$91.4 million to goodwill. The values assigned to certain acquired assets and liabilities are preliminary, are based on information available as of the date of these unaudited pro forma condensed combined financial statements and may be adjusted as further information becomes available during the measurement period of up to 12 months from the date of the Acquisition. Additional information that relates to facts and circumstances that exist as of the Closing Date may subsequently become available and may result in changes in the values allocated to various assets and liabilities. Changes in the fair values of the assets acquired and liabilities assumed during the measurement period may result in material adjustments to goodwill.

The preliminary purchase price allocation is as follows:

	(in millions)
Cash and cash equivalents	\$ 29.1
Short term investments	99.2
Accounts receivable, net	10.4
Inventory	24.8
Prepaid expenses and other current assets	8.1
Property, plant and equipment, net	7.5
Intangible assets, net	212.0
Non-current other assets	21.0
Total assets	<u>412.1</u>
Accounts payable	(5.0)
Other accrued liabilities	(10.2)
Long-term debt	(0.5)
Other long-term liabilities	(46.8)
Total liabilities	<u>(62.5)</u>
Net assets acquired (a)	<u>349.6</u>
Preliminary purchase consideration (b)	<u>441.0</u>
Preliminary goodwill (b) - (a)	<u>\$ 91.4</u>

Under the acquisition method, acquisition-related transaction costs (e.g. advisory, legal, valuation and other professional fees) are not included as consideration transferred. Instead, they are accounted for as expenses in the periods in which the costs are incurred. These costs are not presented in the unaudited pro forma condensed combined statement of operations because they will not have a continuing impact on the combined results.

## Intangible Assets

### *Significant Classes of Intangible Assets Acquired*

**Developed technology:** Developed technology relates to DisplayLink's integrated graphic chips and codec software which are used for graphics display in USB based docking stations and adaptors, enabling the use of the hardware that have reached technological feasibility. Synaptics expects to amortize the fair value of the technologies based on the anticipated time frame in which the economic benefits of the intangible asset are anticipated to be recognized, which is assumed to amortize on a straight-line basis.

**In-process research and development:** In-process research and development relates to the G7 chipset currently under development which has not yet reached technological feasibility as of the Closing Date. The amortization will commence as of the completion of the development project with an expected useful life of 4.0 years.

**Customer contracts and related relationships:** Customer relationships consist of preexisting relationships that are expected to contribute to future earnings. Customer relationship is neither legal nor contractual but is separable as an intangible asset. The fair value of these intangible assets is expected to be amortized on a straight-line basis over the period in which the economic benefits are anticipated to be recognized.

**Trade names/trademarks/domain names:** The DisplayLink trade name is used in the sale of the chipsets and is frequently referenced in the branding of final products, which will be maintained as long as the underlying technology remains relevant in the market. The fair value of the trade name is expected to be amortized on a straight-line basis over the period in which the economic benefits are anticipated to be recognized.

**Order backlog:** Backlog consists of unfulfilled orders as of Closing Date. The value of the backlog is derived from the profit to be generated from fulfilling the orders on backlog.

Preliminary identifiable intangible assets consist of the following:

<b>Intangible Assets</b>	<b>Approximate Fair Value (dollars in millions)</b>	<b>Estimated Useful Lives</b>	<b>Incremental first year amortization</b>
Developed technology	\$ 91.0	3 years	\$ 30.0
IPR&D	50.0	n/a (1)	—
Customer contracts and related relationships	64.0	3 years	21.3
Order backlog	3.0	0.2 years	3.0
Trade names / trademarks / domain names	4.0	4 years	1.0
Total identified intangible assets	<u>\$ 212.0</u>		<u>\$ 55.3</u>

- (1) In the case of in-process research and development assets, the amortization will commence as of the completion of the development project. Upon launch, the expected useful life for the IPR&D will be 4.0 years.

#### *Valuation*

The accounting standards define the term “fair value” and set forth the valuation requirements for any asset or liability measured at fair value, and specifies a hierarchy of valuation techniques based on the inputs used to develop the fair value measures. Fair value is defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurements date.” This is an exit price concept for the valuation of the asset or liability. In addition, market participants are assumed to be buyers and sellers in the principal (or most advantageous) market for the asset or liability. Fair value measurements for an asset assume the highest and best use by these market participants. As a result, Synaptics may be required to record assets which are not intended to be used or sold and/or to value assets at fair value measures that do not reflect Synaptics’ intended use of those assets. Many of these fair value measurements can be highly subjective and it is also possible that other professionals, applying reasonable judgment to the same facts and circumstances, could develop and support a range of alternative estimated amounts.

#### *Goodwill*

Approximately \$91.4 million has been preliminarily allocated to goodwill. Goodwill represents the excess of the estimated purchase price over the fair values of the underlying net tangible and intangible assets. Goodwill will not be amortized but instead will be tested for impairment at least annually (more frequently if certain indicators are present). In the event that we determine that the value of goodwill has become impaired, we will incur an accounting charge for the amount of impairment during the fiscal quarter in which the determination is made.

## **2. Summary of Significant Accounting Policies**

The accounting policies used in the preparation of this unaudited pro forma condensed combined financial information are those set out in Synaptics’ audited financial statements as of and for the fiscal year ended June 27, 2020.

Certain reclassifications have been reflected in the pro forma adjustments to conform DisplayLink’s presentation to Synaptics’ presentation in the unaudited pro forma condensed combined balance sheet and statement of operations. These reclassifications have no effect on previously reported total assets, total liabilities, and stockholders’ equity, or income from continuing operations of Synaptics or DisplayLink. The pro forma financial statements may not reflect all the adjustments necessary to conform the accounting policies of DisplayLink to the accounting policies of Synaptics.

Upon consummation of the Business Combination, management will perform a comprehensive review of the two entities’ accounting policies. As a result of the review, management may identify differences between the accounting policies of the two entities which, when conformed, could have a material impact on the financial statements of the post-combination company. Based on its initial analysis, management did not identify any differences that would have a material impact on the Pro Forma Financial Statements. As a result, the Pro Forma Financial Statements does not assume any differences in accounting policies.

### 3. Pro Forma Adjustments

The Pro Forma Financial Statements reflect certain adjustments that are necessary to present fairly our unaudited pro forma condensed combined results of operations and our unaudited pro forma condensed combined balance sheet as of and for the periods indicated. The pro forma adjustments give effect to events that are (i) directly attributable to the Acquisition, (ii) factually supportable and (iii) with respect to the statement of operations, expected to have a continuing impact on us, and are based on assumptions that management believes are reasonable given the best information currently available.

The accompanying Pro Forma Financial Statements have been prepared as if the acquisition was completed on June 27, 2020 for balance sheet purposes and on June 30, 2019 for statement of operations purposes and reflect the following preliminary pro forma adjustments, based on estimates, and subject to change as more information becomes available and after we complete our final analysis of the fair values of both tangible and intangible assets acquired and liabilities assumed:

- (a) To record total cash paid out of \$443.0 million, inclusive of cash paid for consideration of \$441.0 million and cash paid of \$2.0 million related to total estimated transaction costs incurred by Synaptics.
- (b) To record the estimated fair value of DisplayLink's inventory of \$24.8 million, representing a \$18.7 million increase to the carrying value.
- (c) To record preliminary estimate of goodwill of \$91.4 million.
- (d) To eliminate DisplayLink's historical intangible assets of \$3.2 million and to record the estimated fair value of \$212.0 million for acquired intangible assets.
- (e) To eliminate DisplayLink's historical deferred tax assets of \$8.9 million and to record the deferred tax liability of \$28.8 million associated with the incremental differences in the book and tax basis created from the preliminary purchase price allocation, primarily resulting from the Acquisition Date value of intangible assets.
- (f) To eliminate DisplayLink's deferred rent of \$1.9 million, which does not represent liabilities assumed by Synaptics in the Acquisition.
- (g) To recognize DisplayLink's right-of-use asset of \$19.5 million and short-term and long-term lease liability of \$1.5 million and \$18.0 million, respectively.
- (h) To record severance accrual of \$3.7 million for DisplayLink employees to be terminated due to the Acquisition.
- (i) To eliminate DisplayLink's historical equity balance, consisting of additional paid-in capital of \$120.6 million, other comprehensive loss of \$3.1 million, and retained earnings of \$37.9 million.
- (j) To record Synaptics' non-recurring acquisition related expenses of \$4.2 million included in cash and other accrued liabilities as described in notes (h) and (k).
- (k) To reverse the accrued transaction costs of \$1.5 million and record the estimated transaction costs not accrued as of the pro forma balance sheet date of \$0.5 million as an adjustment to retained earnings.
- (l) To reflect the settlement of DisplayLink's employee loans and warrant liability as part of the Acquisition.
- (m) To eliminate the accrued transaction costs of \$1.5 million incurred by Synaptics in the condensed consolidated statement of operations for the fiscal year ended June 27, 2020.
- (n) To eliminate DisplayLink's historical amortization expense of \$2.5 million and to record amortization expense of \$52.3 million based on fair value of the acquired intangible assets. The adjustment excludes amortization expense for order backlog as order backlog is estimated to be fulfilled within twelve months following the close of the Acquisition and does not have a continuing impact on the combined company.
- (o) To record the income tax impact of the pro forma adjustments.
- (p) To calculate the basic and diluted earnings per share following adjustments to pro forma net income, with no changes to the denominator for the basic and diluted earnings per share calculation.