

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

**FORM 10-K/A**

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

**For The Fiscal Year Ended March 25, 2006**

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

**For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 0-17795**

**CIRRUS LOGIC, INC.**

**DELAWARE**

**77-0024818**

**(State of incorporation)**

**(I.R.S. ID)**

**2901 Via Fortuna, Austin, TX 78746**

**(512) 851-4000**

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

**None**

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

**Common Stock, \$0.001 Par Value**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Act. YES ☒ NO ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☒

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ☐ NO ☒

The aggregate market value of the registrant's voting and non-voting stock held by non-affiliates was approximately \$410 million based upon the closing price reported on the NASDAQ National Market as of September 24, 2005.

As of March 31, 2007, the number of outstanding shares of the registrant's Common Stock, \$0.001 par value, was 88,163,467.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain information contained in the registrant's proxy statement for its annual meeting of stockholders held on July 28, 2006 is incorporated by reference in Part III of this Amended Annual Report on Form 10-K/A.

## EXPLANATORY NOTE

Cirrus Logic, Inc. (“Cirrus,” “We,” “Us,” “Our,” or the “Company”) is filing this Amendment No.1 (“Form 10-K/A”) to our annual report on Form 10-K for the fiscal year ended March 25, 2006 (“the Original Filing”) as filed with the Securities and Exchange Commission (the “Commission”) on May 25, 2006 to restate our:

- Consolidated balance sheets for the fiscal years ended March 25, 2006 and March 26, 2005;
- Consolidated statements of operations, stockholders’ equity and cash flows for the fiscal years ended March 25, 2006, March 26, 2005 and March 27, 2004;
- Unaudited quarterly financial data for each of the quarters in the fiscal years ended March 25, 2006 and March 26, 2005;
- Selected financial data as of and for the fiscal years ended March 25, 2006, March 26, 2005, March 27, 2004, March 29, 2003 and March 30, 2002; and
- Related disclosures.

These items are being restated to reflect the recognition of \$32.4 million in additional share-based compensation expense resulting from the investigation of past stock grants to non-employee directors, executive officers and employees as described below in this Explanatory Note. Within stockholder’s equity, additional paid in capital increased by \$32.3 million and accumulated deficit increased by \$32.4 million. The restatement had no net effect on the totals of operating, investing and financing cash flows in the consolidated statement of cash flows. A detailed discussion of the financial effects of these matters is also included in Item 7 “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — Restatement of Consolidated Financial Statements*” and Note 1A, “*Restatement of Consolidated Financial Statements*,” of the Notes to Consolidated Financial Statements.

We are making the restatement in accordance with generally accepted accounting principles to record the following:

- Non-cash share-based compensation expense for grants recorded with incorrect measurement dates; and
- certain share-based compensation expenses related to the extension of the post-service exercise or vesting period for stock options of terminated employees; and
- Related tax effects for these items.

We will also separately amend our quarterly report on Form 10-Q for the three months ended June 24, 2006. Other previously filed annual reports on Form 10-K and quarterly reports on Form 10-Q affected by the restatements have not been amended and should not be relied upon. Further, all reports of our registered public accounting firm, all earnings press releases, and all similar communications for the restated periods should not be relied upon. All information in this Form 10-K/A is as of March 25, 2006 and does not reflect events occurring after the date of the Original Filing, other than the restatement and updating of certain disclosures affected by events related to the results of the investigation of the company’s historical stock option grants. For the convenience of the reader, this Form 10-K/A sets forth the Original Filing in its entirety, as amended and modified to reflect the restatement. The following items have been amended principally as a result of, and to reflect, the restatement, and no other information in the Original Filing is amended hereby as a result of the restatement:

Part I — Item 1: Business

Part I — Item 1A: Risk Factors;

Part II — Item 6: Selected Consolidated Financial Data;

Part II — Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations;

Part II — Item 8: Financial Statements and Supplementary Data, including the *Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting and the Report of Independent Registered Public Accounting Firm on the Consolidated Financial Statements*; and

Part II – Item 9A: Controls and Procedures.

This Form 10-K/A also includes an updated Exhibit 23.1 *Consent of Independent Registered Public Accounting Firm* and, in accordance with applicable Commission rules, updated certifications from our Acting President and Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) as Exhibits 31.1, 31.2, 32.1 and 32.2.

## Review of Consolidated Financial Statements Based on Review of Stock Option Practices

### *Background Investigation*

Our decision to restate our Consolidated Financial Statements was based on the results of a voluntary internal review and independent investigation into past stock option granting practices. In October 2006, we announced that an internal review of past practices related to grants of stock options had revealed information that raised potential questions about the dates used to account for certain stock option grants. We also announced that, at the recommendation of the Audit Committee of the Company’s Board of Directors (the “Board”), the Board appointed an independent director to serve as a Special Committee to conduct an investigation into our historic stock option granting practices.

The Special Committee retained independent legal counsel to assist in the investigation. During the eight-month investigation, the Special Committee and its independent counsel, assisted by independent forensic accountants, reviewed the facts and circumstances surrounding stock option grants made to executive officers, employees and non-employee directors, searched relevant physical and electronic documents and interviewed current and former directors, officers and employees. This review included an examination of all stock option grants from January 1, 1997 to December 31, 2006, encompassing approximately 42.3 million stock options granted to employees and non-employee directors on 148 different grant dates. The Special Committee’s legal and accounting advisors identified, preserved, collected, and reviewed over 104 gigabytes of electronic information, including approximately 1.6 million pages of electronic and hard copy files, and conducted 25 interviews of current and former employees and members of the Board.

In March 2007, we announced that the Special Committee had reported its principal findings to the Board relating to the above investigation. Based on the report of the Special Committee and on management’s preliminary conclusions and recommendations, the Board concluded that incorrect measurement dates were used for financial accounting purposes for certain stock options granted between January 1, 1997 and December 31, 2005. We disclosed the fact that the anticipated non-cash charges required to correct the discrepancy would be material and that we expected to restate our financial statements for fiscal years 2001 through 2006 and for the first quarter of fiscal year 2007. Accordingly, we announced that based on the findings of the Special Committee, and the recommendations of management and the Audit Committee, the Board had concluded that the financial statements, related notes and selected financial data and all financial press releases and similar communications issued by us and the related reports of the Company’s independent registered public accounting firm relating to fiscal years 2001 through 2006, and the first fiscal quarter of 2007, should no longer be relied upon.

As a result of the findings of the Special Committee detailed below, the Company has recognized \$32.4 million in additional share-based compensation expense arising from stock grants to executive officers and employees. Of this amount, approximately \$9.3 million related to options granted to executive officers who, at the time of the grant, were subject to the reporting requirements under Section 16 of the Exchange Act of 1934. The Special Committee arrived at the following principal findings with respect to the stock option practices of the Company:

- The Company’s stock plan administrative deficiencies between January 1, 1997 and December 31, 2005 led to a number of misdated option grants.
  - o New hire and other promotion and retention option grants were generally made the first Wednesday of each month through the use of unanimous written consents (“UWCs”) of the Company’s Compensation Committee. However, prior to January 2006, many of these monthly grants were misdated, as grant dates were routinely established before the receipt of all the signed UWCs authorizing those grants. Of the \$32.4 million in additional share-based compensation expense, \$6.1 million related to these types of errors.
  - o Many other off-cycle and broad-based annual option grants that were granted through Board or Compensation Committee resolutions were also misdated due to administrative issues in that grant dates were sometimes established before the list of option award recipients had been finalized. Of the \$32.4 million in additional share-based compensation expense, \$4.3 million related to these types of errors.
  - o Beginning in late 2002, the Company formally documented and updated its existing processes and procedures with respect to the granting of options. In 2005, the Company further refined the process and, in 2006, a formal written policy was approved by the Compensation Committee.
  - o Approximately 97% of the potential stock-based compensation charges identified as a result of the Special Committee investigation resulted from grants that were made prior to December 31, 2002.

- Prior to 2003, the limited controls and the lack of definitive processes for stock option granting and approval allowed for potential abuse, including the use of hindsight, in the establishment of more favorable grant dates for certain options.
  - o The Special Committee identified three grant dates prior to 2003 on which three management-level employees received new-hire option grants on dates other than when they began rendering services to the Company. Of the \$32.4 million in additional share-based compensation expense, \$1.4 million related to these types of errors.
  - o The grant date for one grant in 2000 is different from the date the grant appears to have been approved by the Board. While no definitive evidence has been identified to clarify this inconsistency, the selected grant date was at a lower closing stock price than the price on the date of apparent board approval.
  - o Based on the evidence developed in the investigation, the Special Committee believes that certain executive officers had knowledge of and participated in the selection of three grant dates for broad-based employee option grants in the 2000 through 2002 timeframe, either with hindsight or prior to completing the formal approval process. Of the \$32.4 million in additional share-based compensation expense, \$12.0 million related to these types of errors.
  - o The executive officers involved in the option grant process prior to 2003, and in particular the grants described above in the 2000 through 2002 timeframe, were no longer with the Company as of the date the Special Committee reported its findings to the Board with the exception of David D. French, the Company's President and Chief Executive Officer.
  - o In light of the findings, as of March 5, 2007, David D. French resigned as President and Chief Executive Officer and as a director of the Company. The Company has entered into a resignation agreement with Mr. French.
- The Special Committee believes that Mr. French was significantly involved in the grant approval process for certain grants and that he influenced the grant process with a view toward the stock price, and therefore the selection of grant dates, through his control over how quickly or slowly the process was completed. However, the Special Committee does not believe that Mr. French appreciated the significance of the procedural inadequacies or the accounting implications of the grant approval process or grant date selections, or that he was advised by his executive staff of any such inadequacies or implications.
- The Special Committee did not find any irregularities associated with any grants to independent directors or the Company's two broad-based options exchanges during the relevant period.
- The Special Committee found no documentary or testimonial evidence that the Company's independent directors were aware of any attempts by the Company's executive officers to backdate or to otherwise select a favorable grant date, and consequently, had no reason to and did not believe that the accounting or other disclosures were inaccurate.
- The Special Committee further found that the evidence indicates that the independent directors relied upon management to ensure that the Board and Compensation Committee's grant approvals complied with the Company's stock option plans and applicable laws and accounting rules.

Based on the results of its investigation, the Special Committee has recommended a number of remedial actions. The Company is currently reviewing these recommendations and developing and implementing a remediation plan associated with historical stock option grants and the grant of future equity awards. Based on its review of the Special Committee's findings, the Company does not believe that, in the few instances when stock grant dates were selected by management either with hindsight or prior to receiving all required approvals, that any employee, who at the time of the grant was an executive officer, has exercised or realized any financial gain from those grants.

Subsequent to our press release dated March 2, 2007, the Company identified two other issues based upon the findings of the Special Committee that led to an increase of \$8.6 million in additional share-based compensation expense recognized in the consolidated financial statements in excess of the previous estimate of \$22 million to \$24 million. These issues are described as follows:

- Our previous estimate should have included the intrinsic value of 1.8 million options canceled in relation to a Company wide option exchange in fiscal year 2003, which led to an increase in share-based compensation expense. Under EITF 00-23, "*Issues Related to the Accounting for Stock Compensation under APB Opinion No. 25 and FASB Interpretation No. 44*," Issue 37(a), the compensation cost measured on the original grant date of the re-priced stock option grants that remained unrecognized at the time of the option exchange should have been immediately recognized as expense on the day of the exchange and included in our original estimate. Of the \$8.6 million in additional share-based compensation expense beyond our previous estimate, \$6.5 million related to the correction of this error.
- Our previous estimate should have included certain share-based compensation expenses related to certain modifications to the terms of stock options grants for certain individual employees at the time of their

termination. Of the \$8.6 million in additional share-based compensation expense beyond our previous estimate, \$2.1 million related to correction of these types of errors.

As of the date of this filing, the Company has paid a total of approximately \$2.9 million to independent legal counsel, independent forensic accountants, and our independent registered public accounting firm in connection with the eight month investigation into past stock option granting practices.

Share-Based Compensation Summary

In accordance with Accounting Principles Board Opinion No. 25 (“APB No. 25”), “*Accounting for Stock Issued to Employees*,” our restated consolidated financial statements reflect additional compensation expense to the extent the market value of a share of our common stock on the correct measurement date exceeded the exercise price of the option. The additional non-cash compensation expense was amortized over the required service period, generally over the vesting periods of the respective grants. The following shows the share-based compensation adjustments and the related tax effects of all adjustments for fiscal years 2002 through 2006. The decrease in net income for each type of adjustment is as follows (in thousands):

	Net Income (Loss) [Previously Reported]	Non-cash Stock Compensation Expense Adjustment	Tax Effect of Adjustment	Total Adjustments	Net Income (Loss) [Restated]
Fiscal Year 2002	\$ (206,079)	\$ (9,799)	\$ -	\$ (9,799)	\$ (215,878)
Fiscal Year 2003	(199,213)	(6,986)	-	(6,986)	(206,199)
Fiscal Year 2004	46,503	(3,655)	-	(3,655)	42,848
Fiscal Year 2005	(13,388)	(108)	-	(108)	(13,496)
Fiscal Year 2006	54,145	(1,719)	-	(1,719)	52,426

The effect that these adjustments had on diluted earnings per share for the fiscal years 2002 to 2006 is as follows:

	Earnings (Loss) Per Share [Previously Reported]	Adjustments	Earnings (Loss) Per Share [Restated]
Fiscal Year 2002	\$ (2.66)	\$ (0.13)	\$ (2.79)
Fiscal Year 2003	(2.39)	(0.08)	(2.47)
Fiscal Year 2004	0.54	(0.04)	0.50
Fiscal Year 2005	(0.16)	(0.00)	(0.16)
Fiscal Year 2006	0.62	(0.02)	0.60

A summary of the cumulative effect on the components of stockholders’ equity resulting from the restatement of share-based compensation as of March 29, 2003 and for each subsequent fiscal year thereafter is as follows (in thousands):

Adjustments to Stockholder’s Equity	Paid-in Capital	Retained Earnings	Unearned Deferred Compensation	Net Impact to Stockholders’ Equity
Fiscal Year 2003 & Prior	29,392	(26,941)	(3,786)	(1,335)
Fiscal Year 2004	2,109	(3,655)	1,487	(59)
Fiscal Year 2005	(481)	(108)	1,452	863
Fiscal Year 2006	1,592	(1,719)	514	387
Cumulative effect through Fiscal Year 2006	\$ 32,612	\$ (32,423)	\$ (333)	\$ (144)

The net impact to Stockholder’s Equity detailed above was completely offset by a change in other accrued liabilities for each period presented. These were the only adjustments made to our consolidated balance sheet as a result of the restatement. The net book value of our deferred tax assets did not change as a result of the restatement as we continue to provide a full valuation allowance against them. The net book value of our inventory did not change due to the fact that the amount of the additional share-based compensation expense required to be capitalized as inventory was negligible.

The incremental effect of recognizing additional share-based compensation expense resulting from grants with incorrect measurement dates is as follows (in thousands):

	Pre-Tax Expense	After-Tax Expense
Fiscal Year 1998	326	326
Fiscal Year 1999	2,083	2,083
Fiscal Year 2000	2,100	2,100
Fiscal Year 2001	5,647	5,647
Fiscal Year 2002	9,799	9,799
Fiscal Year 2003	6,986	6,986
Total 1998 – 2003 effect	26,941	26,941
Fiscal Year 2004	3,655	3,655
Fiscal Year 2005	108	108
Fiscal Year 2006	1,719	1,719
	5,482	5,482
	<u>\$ 32,423</u>	<u>\$ 32,423</u>

*Litigation Summary*

On January 5, 2007, a purported stockholder filed a derivative lawsuit in state district court in Travis County, Texas against current and former officers and directors of Cirrus Logic and against the Company, as a nominal defendant, alleging various breaches of fiduciary duties, conspiracy, improper financial reporting, insider trading, violations of the Texas Securities Act, unjust enrichment, accounting, gross mismanagement, abuse of control, rescission, and waste of corporate assets related to certain prior grants of stock options by the Company. Our response to the lawsuit is currently due on April 20, 2007.

On March 19, 2007, another purported stockholder filed a derivative lawsuit related to the Company’s prior stock option grants in the United States District Court for the Western District of Texas – Austin Division against current and former officers and directors of Cirrus Logic and against the Company, as a nominal defendant. The individual defendants named in this lawsuit overlap, but not completely, with the state suit. The lawsuit alleges many of the causes of action alleged in the Texas state court suit, but also includes claims for alleged violations of Section 10(b) of the Exchange Act and Rule 10b-5, violations of Section 14(a) of the Exchange Act and violations of Section 20(a) of the Exchange Act. On April 10, 2007, we filed a motion to dismiss the complaint on the grounds that the plaintiff was supposed to make demands on the Board before filing the lawsuit. The plaintiff has not filed a response and no hearing before the court is currently set on the motion to dismiss.

On March 30, 2007, a different purported stockholder filed a nearly identical derivative lawsuit to the March 19, 2007 derivative lawsuit in the United States District Court for the Western District of Texas – Austin Division with identical allegations against the same defendants. We are currently evaluating this plaintiff’s claims.

**CIRRUS LOGIC, INC.**  
**FORM 10-K/A**  
**For The Fiscal Year Ended March 25, 2006**  
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## PART I

### ITEM 1. *Business*

Cirrus Logic, Inc. (“Cirrus Logic,” “Cirrus,” “We,” “Us,” “Our,” or the “Company”) develops high-precision, analog and mixed-signal integrated circuits (“ICs”) for a broad range of consumer and industrial markets. Building on our diverse analog mixed-signal patent portfolio, Cirrus Logic delivers highly optimized products for consumer and commercial audio, automotive entertainment and industrial applications. We develop and market ICs and embedded software used by original equipment manufacturers. We also provide complete system reference designs based on our technology that enable our customers to bring products to market in a timely and cost-effective manner.

We were founded in 1984 and were reincorporated in the State of Delaware in February 1999. Our headquarters are in Austin, Texas with design centers in Boulder, Colorado and Beijing, China and sales locations throughout the United States. We also serve customers from international offices in Europe and Asia, including the People’s Republic of China, Hong Kong, Korea, Japan, Singapore and Taiwan. Our common stock, which has been publicly traded since 1989, is listed on the NASDAQ National Market under the symbol CRUS.

We maintain a Web site with the address [www.cirrus.com](http://www.cirrus.com). We are not including the information contained on our Web site as a part of, or incorporating it by reference into, this Amended Annual Report on Form 10-K/A. We make available free of charge through our Web site our Amended Annual Reports on Form 10-K/A, our Amended Quarterly Reports on Form 10-Q/A, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission (“SEC”). To receive a free copy of this Form 10-K/A, please forward your written request to Cirrus Logic, Inc., Attn: Investor Relations, 2901 Via Fortuna, Austin, Texas 78746, or via email at [InvestorRelations@cirrus.com](mailto:InvestorRelations@cirrus.com).

### **Background of the Semiconductor Industry**

In general, the semiconductor industry produces three types of products: analog, digital and mixed-signal. Analog semiconductors process a continuous range of values that can regulate functions such as temperature, speed, sound, video images and electrical current. Digital semiconductors process discrete values, for example, two values, such as 0s and 1s, used by computers. Mixed-signal semiconductors combine analog and digital functions in a single product.

In the consumer electronics industry, audio soundtracks and video images were transmitted, edited and stored almost exclusively using analog formats. Given advances in technology, audio and video now can be stored in digital format. This format allows for the manipulation of audio and video signals through digital signal processors (“DSPs”). With digital signal processors, digital audio and digital video signals can be compressed, improving storage and efficiencies in transmissions and they can be transmitted and reproduced without degradation in the sound or images. The digital format also allows for greater security from unauthorized copying, better editing capabilities and random access to data.

In addition, increasing advances in semiconductor technology are resulting in the convergence of consumer electronics products, which means cost savings and added convenience and functionality for consumers. For example, compact disc (“CD”) players were introduced to play audio content in the CD format only. Later, digital video disc (“DVD”) players were introduced, combining audio with video. These consumer electronics products now support additional audio and video formats, such as MP3 audio and MPEG-4 video. As these digital home entertainment systems have converged and have become increasingly complex, a need has arisen among makers of these systems for sophisticated IC chips that have many features and are cost-effective.

Manufacturers of consumer electronics products also face expedited time-to-market demands. In addition, because analog or mixed-signal IC design is a specialized field of IC design, manufacturers increasingly are asking third parties to provide advanced, analog or mixed-signal ICs. The design of the analog component of a mixed-signal IC is complex and difficult, and requires engineers to optimize speed, power and resolution within standard manufacturing processes.



Markets and Products

We are focused on becoming a leader in high-precision analog and mixed-signal ICs for a broad range of consumer and industrial markets. During fiscal year 2006, Cirrus Logic sold its digital video product line assets to Magnum Semiconductor, a privately held company formed by an investment group led by Investcorp and August Capital. By selling these assets, Cirrus Logic re-aligned its business focus around its core analog, mixed-signal and embedded integrated circuit product lines for audio and industrial markets. Our primary product lines include:

**Mixed-Signal Audio Products:** High-precision analog and mixed-signal products for consumer, professional, and automotive entertainment markets.

**Industrial Products:** High-precision analog and mixed-signal components for industrial and medical measurement applications.

**Embedded Products:** High-precision processors and software for consumer audio, professional audio and industrial applications.

We offer more than 600 products to over 2,500 customers worldwide through both direct and indirect sales channels. Our major customers are among the world’s leading electronics manufacturers. We target both large existing and emerging growth consumer electronic markets that derive value from our expertise in advanced analog and mixed-signal design processing, systems-level integrated circuit engineering and embedded software development. We derive our revenue both domestically and from a variety of locations across the globe, including the People’s Republic of China, Hong Kong, Taiwan, Korea, Japan, the European Union, and the United Kingdom.

The following table summarizes sales to customers that represent more than 10 percent of our consolidated net sales:

	March 25, 2006	March 26, 2005	March 27, 2004
Avnet, Inc. (formerly Memec Holdings Group)	25%	27%	20%

MIXED-SIGNAL AUDIO PRODUCTS

We are a recognized leader in analog and mixed-signal audio converter technologies that enable today’s new consumer, professional and automotive entertainment products. Our products include analog-to-digital converters (“ADCs”), digital-to-analog converters (“DACs”), chips that integrate ADCs and DACs into a single IC, otherwise known as coder-decoders (“CODECs”), digital interface ICs, and volume and digital amplifiers controllers. Our broad portfolio of approximately 275 active proprietary products includes the following products, which have been added in the past fiscal year:

- the CS42L51 low-power stereo audio CODEC for portable consumer applications;
- the CS52L21 low-power stereo ADC for portable consumer applications;
- the CS4361 entry-level six channel audio DAC for consumer and automotive audio applications;
- the CS4270 stereo audio CODEC for entry and mid-tier consumer and automotive audio applications;
- the CS4364/84 six- and eight-channel DACs for consumer and automotive audio applications;
- the CS5364/66/68 multi channel ADC for professional audio applications;
- the CS5343/44 stereo ADC for consumer and automotive audio applications; and
- the CS3308/18 analog volume control for professional and high-end consumer audio applications.

Our products are used in a wide array of consumer applications, including audio/video receivers (“AVRs”), DVD players and recorders, complete home theater systems, set-top boxes, MP3 players, gaming devices, sound cards and digital televisions. Applications for products within professional markets include digital mixing consoles, multi-track digital recorders and effects processors. Applications for products within automotive markets include amplifiers, satellite radio systems and multi-speaker car-audio systems.

Our analog and mixed-signal audio converters support a customer base featuring such leading companies as Apple, BBK, Bose, Creative, Harman Kardon, iRiver, Korg, LG Electronics, Marantz, Panasonic, Philips, Sony, Samsung and Scientific-Atlanta. Key competitors to Cirrus Logic in this product line include Wolfson Microelectronics, AKM, Texas Instruments/Burr Brown, Analog Devices and Maxim.

**INDUSTRIAL PRODUCTS**

We provide high-precision analog and mixed-signal ICs for industrial measurement applications. We have more than 150 active proprietary products which include ADCs, DACs, successive approximation register (“SAR”) converters and amplifier ICs. Our products are used in a wide array of high-precision, industrial measurement applications including industrial process control, analytical and medical instruments, consumer utility, digital power meters and seismic systems. New additions to our proprietary product portfolio in the past fiscal year include:

- the CS5373A seismic IC, which integrates a high-precision Delta Sigma modulator and a seismic test DAC into a single IC;
- the CS5461A and CS5463 power meter ICs for digital power measurement applications for emerging global markets; and
- the CS5464 and CS5467 power meter ICs targeting market-specific requirements in India and Japan, respectively.

We have a wide-ranging industrial customer base including Actaris, Elymer, Hydrosience, Input/Output, Itron Electric Metering, Mettler-Toledo, National Instruments, and Schlumberger. Our key competitors in industrial applications include Analog Devices, Texas Instruments/Burr Brown, Maxim and Linear Technologies.

**EMBEDDED PRODUCTS**

We provide a wide variety of embedded processor technologies for consumer and industrial markets. These embedded processors include audio DSPs primarily targeted at consumer audio applications, ARM7- and ARM9-based embedded processors focused on industrial applications, CobraNet™ -enabled controller and audio system processor ICs for commercial and professional audio markets, and Ethernet MACs and T1/E1 line interface units. We offer advanced ICs combined with innovation in software solutions, providing our customers features that differentiate their products against their competitors. We offer a family of 24- and 32-bit audio DSPs targeted at a wide range of applications such as audio/video receivers, automotive entertainment, set-top boxes, digital televisions and DVD receivers. In addition, we provide our customers standard audio algorithms, as well as proprietary audio enhancement algorithms, such as Intelligent Room Calibration software.

In the general-purpose processor segment, our ARM family of processors offers a highly integrated 32-bit System-On-A-Chip solution with a wide array of price-performance-integration points for industrial applications. These embedded processors support popular third-party software such as Linux and WinCE Net™.

In networked digital audio applications, our proprietary CobraNet controller ICs enable delivery of uncompressed digital audio over Ethernet networks. In doing so, the distributed audio co-exists with standard Ethernet network data traffic. In December 2005, we announced an agreement with Gibson® USA to develop next-generation digital audio networking products beginning in calendar year 2006. Building upon CobraNet technology and Gibson’s MaGIC® technology, the new products will provide high-channel count media transport solutions for professional markets, while enabling secure multiroom distribution of media content in consumer markets.

New embedded products introduced in the last fiscal year include:

- DSP Conductor, a unique software tool designed to streamline audio features programming for users of the CS496XXX family of audio systems processors featuring CobraNet technology; and
- A reference design in collaboration with Genesis Microchip for high-definition audio/video receivers, featuring Cirrus Logic's CS495XX family of audio DSPs.

Our embedded product customers include Bose, eTronics, Harman Kardon, Hitachi, Kenwood, Logitech, Marantz, Onkyo, Panasonic, Pioneer, RCA/Thomson S.A., Sharp and Sony. Our competitors in embedded product solutions include Analog Devices, Texas Instruments/Burr Brown, Freescale Semiconductor, Samsung, Realtek, ATMEL and IDT.

With the sale of the digital video product line assets, we have reclassified a product previously reported as part of the digital video products as part of the embedded product line. We retained the rights to sell this specific product as part of the digital video product line divestiture.

**Manufacturing**

We contract with third parties for all of our wafer fabrication, assembly, and test services. Our fabless manufacturing strategy allows us to concentrate on our design strengths, minimize fixed costs and capital expenditures, access advanced manufacturing facilities and provide flexibility to source multiple leading-edge technologies through strategic relationships. After wafer fabrication by the foundry, third-party assembly vendors package the wafer die. The finished products are then sent for testing before shipment to our customers. Our supply chain management organization is responsible for the management of all aspects of the manufacturing and testing of our products, including process and package development, test program development, and production testing of products in accordance with our ISO-certified quality management system. We use multiple foundries, assembly and test houses.

**Patents, Licenses and Trademarks**

We rely on trade secret, patent, copyright and trademark laws to protect our intellectual property products and technology. We intend to continue this practice in the future to protect our products and technologies. As of March 25, 2006, we held 933 U.S. patents, 148 U.S. patent applications pending and various corresponding international patents and applications. Our U.S. patents expire in years 2006 through 2025.

We have obtained U.S. federal registrations for the CIRRUS LOGIC®, CIRRUS® and CRYSTAL® trademarks as well as our Cirrus Logic logo trademark. These U.S. registrations may be renewed as long as the marks continue to be used in interstate commerce. We have also filed or obtained foreign registration for these marks in other countries or jurisdictions where we conduct, or anticipate conducting, international business.

To complement our own research and development efforts, we have also licensed and expect to continue to license, a variety of intellectual property and technologies important to our business from third parties.

**Research and Development**

We concentrate our research and development efforts on the design and development of new products for each of our principal markets. We also fund certain advanced-process technology development, as well as other emerging product opportunities. Expenditures for research and development in fiscal years 2006, 2005, and 2004, were \$45.8 million, \$80.5 million, and \$92.0 million, respectively. These amounts include amortization of acquired intangibles of \$1.4 million \$13.7 million, and \$14.4 million, in fiscal years 2006, 2005, and 2004, respectively. Our future success is highly dependent upon our ability to develop complex new products, to transfer new products to volume production in a timely fashion, to introduce them to the marketplace ahead of the competition and to have them selected for design into products of systems manufacturers. Our future success may also depend on assisting our

customers with integration of our components into their new products, including providing support from the concept stage through design, launch and production ramp.

**Competition**

Markets for our products are highly competitive and we expect that competition will continue to increase. We compete with other semiconductor suppliers that offer standard semiconductors, application-specific standard product and fully customized ICs, including embedded software, chip and board-level products. A few customers also develop ICs that compete with our products. Our strategy involves providing lower-cost versions of existing products and new, more advanced products for customers’ new designs.

While no single company competes with us in all of our product lines, we face significant competition in each of our major product lines, as detailed above in our product line discussions. We expect to face additional competition from new entrants in our markets, which may include both large domestic and international IC manufacturers and smaller, emerging companies.

The principal competitive factors in our markets include time to market; quality of hardware/software design and end-market systems expertise; price; product benefits that are characterized by performance, features, quality and compatibility with standards; access to advanced process and packaging technologies at competitive prices; and sales and technical support, including assisting our customers with integration of our components into their new products and providing support from the concept stage through design, launch and production ramp.

Competition typically occurs at the design stage, where the customer evaluates alternative design approaches that require ICs. Many of our products have not been available from second sources, thus, once our ICs have been designed into a customer’s system, we generally do not face direct competition in selling our products.

Product life cycles vary greatly by product category. For example, many consumer electronic devices have shorter design-in cycles; therefore, our competitors have increasingly frequent opportunities to achieve design wins in next-generation systems. Conversely, this also provides us more frequent opportunities to displace competitors in products we have previously not been designed in. The industrial and automotive markets typically have longer life cycles, which provide longer revenue streams. In the event that competitors succeed in supplanting our products, our market share may not be sustainable and net sales, gross margins and earnings could be adversely affected.

**Sales, Marketing and Technical Support**

Although we sell our products worldwide, we sell our products principally in Asia. Export sales, which include sales to customers with manufacturing plants outside the United States, were 66 percent, 67 percent, and 72 percent in fiscal years 2006, 2005, and 2004, respectively. We maintain a worldwide sales force, which is intended to provide geographically specific selling support to our customers and specialized selling of product lines with unique customer bases.

Our domestic sales force includes a network of regional direct sales offices located in California, Colorado, Massachusetts, Nevada, Oregon and Texas. International sales offices and staff are located in Hong Kong, Japan, Shanghai and Shenzen in the People’s Republic of China, Singapore, South Korea, Taiwan and the United Kingdom. We supplement our direct sales force with external sales representatives and distributors. Our technical support staff is located in Colorado, Texas, and Beijing in the People’s Republic of China.

**Backlog**

Sales are made primarily pursuant to standard short-term purchase orders for delivery of standard products. The quantity actually ordered by the customer, as well as the shipment schedules, are frequently revised, without significant penalty, to reflect changes in the customer’s needs. We utilize backlog as an indicator to assist us in production planning. However, backlog is influenced by several factors including market demand, pricing and customer order patterns in reaction to product lead times. Quantities actually purchased by customers, as well as

prices, are subject to variations between booking and delivery to reflect changes in customer needs or industry conditions. As a result, we believe that our backlog at any given time is not a reliable indicator of future revenues.

## **Employees**

As of March 25, 2006, we had 424 full-time employees, of whom 54 percent were engaged in research and product development activities, 40 percent in sales, marketing, general and administrative activities and 6 percent in manufacturing-related activities. Our future success depends, in part, on our ability to continue to attract, retain and motivate highly qualified technical, marketing, engineering and administrative personnel.

Due to the highly competitive nature of the marketplace that we operate in, we may from time-to-time lose key employees to our competitors. We have been able to hire qualified personnel in the past to fill open positions created by these occurrences, although there can be no assurance that we will be able to do this in the future. None of our employees are represented by collective bargaining agreements.

### **Item 1A. Risk Factors Affecting Our Business and Prospects**

This Annual Report on Form 10-K/A and other documents we file with the Commission contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about our future performance, business, beliefs, and assumptions. In addition, we, or others on our behalf, may make forward-looking statements in press releases or written statements, or in our communications and discussions with investors and analysts in the normal course of business through meetings, web casts, phone calls, and conference calls. Words such as “expect,” “anticipate,” “outlook,” “forecast,” “could,” “project,” “intend,” “plan,” “continue,” “believe,” “seek,” “estimate,” “should,” “may,” “assume,” variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict. We describe our respective risks, uncertainties, and assumptions that could affect the outcome or results of operations below.

We have based our forward looking statements on our management’s beliefs and assumptions based on information available to our management at the time the statements are made. We caution you that actual outcomes and results may differ materially from what is expressed, implied, or forecasted by our forward looking statements. Reference is made in particular to forward looking statements regarding growth strategies, industry trends, financial results, cost reduction initiatives, acquisition synergies, manufacturing strategies, product development and sales, regulatory approvals, and competitive strengths. Past financial performance should not be considered to be a reliable indicator of future performance, and you should not use historical trends to anticipate results or trends in future periods. Except as required under the federal securities laws, we do not have any intention or obligation to update publicly any forward-looking statements after the distribution of this report, whether as a result of new information, future events, changes in assumptions, or otherwise.

Our business faces significant risks. The risk factors set forth below may not be the only risks that we face. Additional risks that we are not aware of yet or that currently are not significant may adversely affect our business operations. You should read the following cautionary statements in conjunction with the factors discussed elsewhere in this and other of Cirrus Logic’s filings with the SEC. These cautionary statements are intended to highlight certain factors that may affect the financial condition and results of operations of Cirrus Logic and are not meant to be an exhaustive discussion of risks that apply to companies such as ours.

***Despite our efforts to make appropriate judgments in determining the correct measurement dates for our stock option grants, the Securities and Exchange Commission may disagree with our reporting or we may discover additional information in the future concerning the appropriate measurement dates. Therefore, a risk exists that we may have to further restate our prior financial statements.***

As described in the Explanatory Note immediately preceding Part I in this Form 10-K/A, as a result of the internal review and independent investigation relating to our past stock option granting practices, the Board has concluded, and management agrees, that incorrect measurement dates were used for financial accounting purposes for stock option grants made in certain prior periods. As a result, we have recorded additional non-cash share-based compensation expense, and related tax effects, with regard to certain past stock option grants, and we have restated certain previously filed financial statements included in this Form 10-K/A. While we believe that we have made appropriate judgments in determining the correct measurement dates for our stock option grants, the Commission may disagree with the manner in which we have accounted for and reported the financial impact or we may discover additional information concerning appropriate measurement dates. Accordingly, we may be required to further

restate our prior financial statements, amend prior filings with the Commission or take other actions not currently contemplated.

***Our operating results for fiscal year 2006 and prior periods have been materially impacted by the results of the voluntary review of our past stock option granting practices. Any related action by a governmental agency could result in civil or criminal sanctions. Such matters and civil litigation relating to our historical option practices or our restatement of our financial statements could result in significant costs and the diversion of attention of our management and other key employees, which could have an adverse effect on us.***

On October 26, 2006, we received an informal request for information from the staff of the Fort Worth, Texas regional office of the Securities and Exchange Commission regarding our historical option granting practices. We are cooperating with the SEC's informal investigation, but do not know when or how it will be resolved or what, if any, actions the SEC may require us to take as part of the resolution of that matter. In addition, we have been contacted by the United States Attorney's Office for the Southern District of New York regarding the results of our investigation.

In addition, we have received a NASDAQ Staff Determination on November 10, 2006 indicating that the Company had failed to comply with the filing requirements of Marketplace Rule 4310(c)(14) because it had not timely filed its Quarterly Report on Securities and Exchange Commission Form 10-Q for the period ended September 23, 2006, and that its securities are, therefore, subject to delisting from the NASDAQ Global Select Market. On January 26, 2007, we received a written notification from the staff of NASDAQ that a NASDAQ Listing Qualifications Panel has granted the Company's request for continued listing on the NASDAQ stock market, subject to the conditions that we provide NASDAQ with certain information regarding the results of the previously announced investigation by a special committee of the Company's board of directors on or about March 1, 2007, and file any delinquent periodic reports, and any required restatements, by April 18, 2007. If we do not meet the NASDAQ Listing Qualifications Panel conditions, the Company's common stock could be delisted from the NASDAQ Global Select Market. Further, if the SEC disagrees with the manner in which we have accounted for and reported the financial impact of past stock option grants, there could be further delays in filing subsequent SEC reports that could result in delisting of the Company's common stock from the NASDAQ Global Select Market.

Moreover, as discussed in the Explanatory Note preceding Item 1 of this 10-K/A and Note 1A of Notes to Consolidated Financial Statements, included in this Report, we are currently engaged in civil litigation with parties that claim, among other allegations, that certain of our current and former directors and officers improperly dated stock option grants to enhance their own profits on the exercise of such options or for other improper purposes. Although we and the other defendants intend to defend these claims vigorously, there are many uncertainties associated with any litigation, and we cannot assure you that these actions will be resolved without substantial costs and/or settlement charges. We have entered into indemnification agreements with most of our present and former directors and officers. Under those agreements, we may be required to indemnify each such director or officer against losses incurred by such individual in connection with the pending litigation (other than indemnified liabilities arising from willful misconduct, conduct that is knowingly fraudulent or deliberately dishonest, or claims in the form of derivative damages owed to the corporation). We are required, under the indemnification agreements, to advance expenses for the defense of the claims, including attorneys' fees on a current basis, subject to a claim for reimbursement should the indemnitee be adjudicated ineligible for indemnification.

The resolution of the pending informal investigation by the SEC, the defense of our pending civil litigations, our indemnification obligations to current and former directors and officers, and the defense of any additional litigation relating to our past option grant practices or our restatement of our prior financial statements could result in significant costs and diversion of the attention of management.

***Our results may be affected by the fluctuation in sales in the consumer entertainment market.***

Because we sell products in the consumer entertainment market, we are likely to be affected by seasonality in the sales of our products. In particular, a significant portion of consumer electronics products are sold worldwide during the third calendar quarter in preparation for the fourth calendar quarter holiday seasons. As a result, we expect stronger sales of ICs into the consumer entertainment market to occur in our second and third fiscal quarters in anticipation of these seasons.

Further, a decline in consumer confidence and consumer spending relating to economic conditions, terrorist attacks, armed conflicts, oil prices, global health conditions and/or the political stability of countries in which we operate or sell into could have a material adverse effect on our business.

***The highly cyclical and volatile nature of our industry may affect our operating results.***

We are subject to business cycles and it is difficult to predict the timing, length or volatility of these cycles. During downturns, customers usually reduce purchases, delay delivery of products, shorten lead times on orders and/or cancel orders. During upturns, our third party suppliers and contract manufacturers may have capacity or supply constraints that result in higher costs, longer lead times, and/or an inability to meet customer demand. These business cycles may create pressure on our sales, gross margins and/or operating results.

We cannot assure that any future downturn or upturn will not have a material adverse effect on our business and results of operations. We cannot assure that we will not experience substantial period-to-period fluctuations in revenue due to general semiconductor industry conditions or other factors.

***Our failure to develop and timely introduce new products that gain market acceptance could harm our operating results.***

Our success depends upon our ability to develop new products for new and existing markets, to introduce these products in a timely and cost-effective manner, and to have these products gain market acceptance. New product introductions involve significant risks. For example, delays in new product introductions or less-than-anticipated market acceptance of our new products are possible and would have an adverse effect on our revenue and earnings. The development of new products is highly complex and, from time-to-time, we have experienced delays in developing and introducing these new products. Successful product development and introduction depend on a number of factors, including:

- proper new product definition,
- timely completion of design and testing of new products,
- assisting our customers with integration of our components into their new products, including providing support from the concept stage through design, launch and production ramp,
- successfully developing and implementing the software necessary to integrate our products into our customers’ products,
- achievement of acceptable manufacturing yields,
- availability of wafer, assembly and test capacity,
- market acceptance of our products and the products of our customers, and
- obtaining and retaining industry certification requirements.

Although we seek to design products that have the potential to become industry standard products, we cannot assure that market leaders will adopt any products introduced by us, or that any products initially accepted by our customers who are market leaders will become industry standard products. Both revenues and margins may be materially affected if new product introductions are delayed, or if our products are not designed into successive generations of our customers’ products. We cannot assure that we will be able to meet these challenges, or adjust to changing market conditions as quickly and cost-effectively as necessary to compete successfully. Our failure to develop and introduce new products successfully could harm our business and operating results.

Successful product design and development is dependent on our ability to attract, retain and motivate qualified design engineers, of which there is a limited number. Due to the complexity and variety of analog and high-precision analog and mixed-signal circuits, the limited number of qualified integrated circuit designers and the limited effectiveness of computer-aided design systems in the design of analog and mixed-signal ICs, we cannot assure that we will be able to successfully develop and introduce new products on a timely basis.

***Our products are complex and could contain defects, which could result in material costs to us.***

Product development in the markets we serve is becoming more focused on the integration of multiple functions on individual devices. There is a general trend towards increasingly complex products. The greater integration of functions and complexity of operations of our products increases the risk that our customers or end users could discover latent defects or subtle faults after volumes of product have been shipped. This could result in:

- damage to our reputation,
- a material recall and replacement costs for product warranty and support,

- payments to our customer related to such recall claims as a result of various industry or business practices, or in order to maintain good customer relationships,
- an adverse impact to our customer relationships by the occurrence of significant defects,
- a delay in recognition or loss of revenues, loss of market share, or failure to achieve market acceptance, and
- a diversion of the attention of our engineering personnel from our product development efforts.

In addition, any defects or other problems with our products could result in financial or other damages to our customers who could seek damages from us for their losses. A product liability claim brought against us, even if unsuccessful, would likely be time consuming and costly to defend. In particular, the sale of systems and components into certain applications for the automotive industry involves a high degree of risk that such claims may be made.

While we believe that we are reasonably insured against these risks and contractually limit our financial exposure, we cannot assure that we will be able to obtain sufficient insurance, in terms of amounts or scope, to provide us with adequate coverage against all potential liability.

***We have historically experienced fluctuations in our operating results and expect these fluctuations to continue in future periods.***

Our quarterly and annual operating results are affected by a wide variety of factors that could materially and adversely affect our net sales, gross margins and operating results. These factors include:

- the volume and timing of orders received,
- changes in the mix of our products sold,
- market acceptance of our products and the products of our customers,
- competitive pricing pressures,
- our ability to introduce new products on a timely basis,
- the timing and extent of our research and development expenses,
- the failure to anticipate changing customer product requirements,
- disruption in the supply of wafers, assembly or test services,
- certain production and other risks associated with using independent manufacturers, assembly houses and testers, and
- product obsolescence, price erosion, competitive developments, and other competitive factors.

***We may face increased risks and uncertainties related to our non-marketable securities.***

On occasion, we may invest in non-marketable securities of private companies. As of March 25, 2006, the carrying value of our investments in non-marketable securities totaled \$7.9 million.

Investments in non-marketable securities are inherently risky, and some of these companies are likely to fail. Their success (or lack thereof) is dependent on these companies product development, market acceptance, operational efficiency and other key business success factors. In addition, depending on these companies' future prospects, they may not be able to raise additional funds when needed or they may receive lower valuations, with less favorable investment terms than in previous financings, and our investments in them would likely become impaired.

***Shifts in industry-wide capacity and our practice of purchasing our products based on sales forecasts may result in significant fluctuations in our quarterly and annual operating results.***

As a fabless semiconductor developer, we rely on independent foundries and assembly and test houses to manufacture our products. Our reliance on these third parties involves certain risks and uncertainties. For example, shifts in industry-wide capacity from shortages to oversupply, or from oversupply to shortages, may result in significant fluctuations in our quarterly and annual operating results. We may order wafers and build inventory in advance of receiving purchase orders. Because our industry is highly cyclical and is subject to significant



downturns resulting from excess capacity, overproduction, reduced demand, order cancellations, or technological obsolescence, there is a risk that we will forecast inaccurately and produce excess inventories of particular products.

In addition, we generally order our products through non-cancelable purchase orders from third-party foundries based on our sales forecasts and our customers can generally cancel or reschedule orders they place with us without significant penalties. If we do not receive orders as anticipated by our forecasts, or our customers cancel orders that are placed, we may experience increased inventory levels.

Due to the product manufacturing cycle characteristic of IC manufacturing and the inherent imprecision by our customers to accurately forecast their demand, product inventories may not always correspond to product demand, leading to shortages or surpluses of certain products. As a result of such inventory imbalances, future inventory write-downs and charges to gross margin may occur due to lower of cost or market accounting, excess inventory, and inventory obsolescence.

***Strong competition in the semiconductor market may harm our business.***

The IC industry is intensely competitive and is frequently characterized by rapid technological change, price erosion and design, technological obsolescence, and a push towards IC component integration. Because of shortened product life cycles and even shorter design-in cycles in a number of the markets that we serve, our competitors have increasingly frequent opportunities to achieve design wins in next-generation systems. In the event that competitors succeed in supplanting our products, our market share may not be sustainable and our net sales, gross margins and operating results would be adversely affected. Additionally, further component integration could eliminate the need for our products.

We compete in a number of fragmented markets. Our principal competitors in these markets include AKM Semiconductors, Analog Devices, Freescale Semiconductor, LSI Logic, Maxim, Micronas, Samsung Semiconductor, Texas Instruments, and Wolfson Microelectronics, many of whom have substantially greater financial, engineering, manufacturing, marketing, technical, distribution and other resources, broader product lines, greater intellectual property rights and longer relationships with customers. We also expect intensified competition from emerging companies and from customers who develop their own IC products. In addition, some of our current and future competitors maintain their own fabrication facilities, which could benefit them in connection with cost, capacity and technical issues.

Increased competition could adversely affect our business. We cannot assure that we will be able to compete successfully in the future or that competitive pressures will not adversely affect our financial condition and results of operations. Competitive pressures could reduce market acceptance of our products and result in price reductions and increases in expenses that could adversely affect our business and our financial condition.

***We may be unable to protect our intellectual property rights.***

Our success depends on our ability to obtain patents and licenses and to preserve our other intellectual property rights covering our products. We seek patent protection for those inventions and technologies for which we believe such protection is suitable and is likely to provide a competitive advantage to us. We also rely substantially on trade secrets, proprietary technology, non-disclosure and other contractual agreements, and technical measures to protect our technology and manufacturing knowledge. We work actively to foster continuing technological innovation to maintain and protect our competitive position. We cannot assure that steps taken by us to protect our intellectual property will be adequate, that our competitors will not independently develop or patent substantially equivalent or superior technologies or be able to design around our patents, or that our intellectual property will not be misappropriated. In addition, the laws of some non-U.S. countries may not protect our intellectual property as well as the laws of the United States.

Any of these events could materially adversely affect our business, operating results and financial condition. Policing infringement of our technology is difficult, and litigation may be necessary in the future to enforce our intellectual property rights. Any such litigation could be expensive, take significant time and divert management’s attention from other business concerns.

***Potential intellectual property claims and litigation could subject us to significant liability for damages and could invalidate our proprietary rights.***

The IC industry is characterized by frequent litigation regarding patent and other intellectual property rights. We may find it necessary to initiate a lawsuit to assert our patent or other intellectual property rights. These legal proceedings could be expensive, take significant time and divert management’s attention from other business concerns. We cannot assure that we will ultimately be successful in any lawsuit, nor can we assure that any patent owned by us will not be invalidated, circumvented, or challenged. We cannot assure that rights granted under the patent will provide competitive advantages to us, or that any of our pending or future patent applications will be issued with the scope of the claims sought by us, if at all.

As is typical in the IC industry, we and our customers have from time to time received and may in the future receive, communications from third parties asserting patents, mask work rights, or copyrights. In the event third parties were to make a valid intellectual property claim and a license was not available on commercially reasonable terms, our operating results could be harmed. Litigation, which could result in substantial cost to us and diversion of our management, technical and financial resources, may also be necessary to defend us against claimed infringement of the rights of others. An unfavorable outcome in any such suit could have an adverse effect on our future operations and/or liquidity.

***Our products may be subject to average selling prices that decline over short time periods. If we are unable to increase our volumes, introduce new or enhanced products with higher selling prices or reduce our costs, our business and operating results could be harmed.***

Historically in the semiconductor industry, average selling prices of products have decreased over time. If the average selling price of any of our products declines and we are unable to increase our unit volumes, introduce new or enhanced products with higher margins and/or reduce manufacturing costs to offset anticipated decreases in the prices of our existing products, our operating results may be adversely affected. In addition, because of procurement lead times, we are limited in our ability to reduce total costs quickly in response to any revenue shortfalls. Because of these factors, we may experience material adverse fluctuations in our future operating results on a quarterly or annual basis.

***We have significant international sales, and risks associated with these sales could harm our operating results.***

Export sales, principally to Asia, include sales to U.S.-based customers with manufacturing plants overseas and accounted for 66 percent, 67 percent, and 72 percent of our net sales in fiscal years 2006, 2005, and 2004, respectively. We expect export sales to continue to represent a significant portion of product sales. This reliance on international sales subjects us to the risks of conducting business internationally, including political and economic stability and global health conditions, especially in Asia. For example, the financial instability in a given region, such as Asia, may have an adverse impact on the financial position of end users in the region, which could affect future orders and harm our results of operations. Our international sales operations involve a number of other risks, including:

- unexpected changes in government regulatory requirements,
- changes to countries’ banking and credit requirements,
- changes in diplomatic and trade relationships,
- delays resulting from difficulty in obtaining export licenses for technology,
- tariffs and other barriers and restrictions,
- competition with non-U.S. companies or other domestic companies entering the non-U.S. markets in which we operate,
- longer sales and payment cycles,
- problems in collecting accounts receivable,
- political instability, and
- the burdens of complying with a variety of non-U.S. laws.

In addition, our competitive position may be affected by the exchange rate of the U.S. dollar against other currencies. Consequently, increases in the value of the dollar would increase the price in local currencies of our products in non-U.S. markets and make our products relatively more expensive. Alternatively, decreases in the

value of the dollar will increase the relative cost of our and our vendors’ operations that are based overseas. We cannot assure that regulatory, political and other factors will not adversely affect our operations in the future or require us to modify our current business practices.

***Failure to manage our distribution channel relationships could adversely affect our business.***

The future of our business, as well as the future growth of our business, will depend in part on our ability to manage our relationships with current and future distributors and external sales representatives and to develop additional channels for the distribution and sale of our products. The inability to successfully manage these relationships could adversely affect our business.

***Our international operations subject our business to additional political and economic risks that could have an adverse impact on our business.***

In addition to export sales constituting a majority of our net sales, we maintain significant international operations, including design, sales and technical support personnel. We are also using contract manufacturers in Asia for foundry, assembly and test operations. International expansion has required and will continue to require significant management attention and resources. There are risks inherent in expanding our presence into non-U.S. regions, including, but not limited to:

- difficulties in staffing and managing non-U.S. operations,
- failure of non-U.S. laws to adequately protect our U.S. intellectual property, patent, trademarks, copyrights, know-how and other proprietary rights,
- global health conditions and potential natural disasters,
- political and economic instability in international regions,
- international currency controls and exchange rate fluctuations,
- additional vulnerability from terrorist groups targeting American interests abroad, and
- legal uncertainty regarding liability and compliance with non-U.S. laws and regulatory requirements.

***If we fail to attract, hire and retain qualified personnel, we may not be able to develop, market, or sell our products or successfully manage our business.***

Competition for personnel in our industry is intense. The number of technology companies in the geographic areas in which we operate is greater than it has been historically and we expect competition for qualified personnel to intensify. There are only a limited number of people in the job market with the requisite skills. Our Human Resources organization focuses significant efforts on attracting and retaining individuals in key technology positions. For example, start-up companies generally offer larger equity grants to attract individuals from more established companies. The loss of the services of key personnel or our inability to hire new personnel with the requisite skills could restrict our ability to develop new products or enhance existing products in a timely manner, sell products to our customers, or manage our business effectively.

***We will be required to expense share-based payments to our employees and we may have a significant material adverse charge to our financial statements.***

On December 16, 2004, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard No. 123R (“SFAS No. 123(R)”), “*Share-Based Payment*,” which is a revision of SFAS No. 123 and supersedes Accounting Principles Bulletin Opinion No. 25 (“APB No. 25”). SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be valued at fair value on the date of grant, and to be expensed over the applicable vesting period. Pro forma disclosure of the income statement effects of share-based payments is no longer an alternative. SFAS No. 123(R), as amended, is effective for all stock-based awards granted in fiscal years beginning after June 15, 2005. In addition, companies must also recognize compensation expense related to any awards that are not fully vested as of the effective date. Compensation expense for the unvested awards will be measured based on the fair value of the awards previously calculated in developing the pro forma disclosures in accordance with the provisions of SFAS No. 123.

We may be faced with increased risk due to the volatility of our stock price and our ability to predict the exercise patterns of our stock. In general, we view our volatility as greater than our competitors. As a result, our adoption of this standard may adversely impact our earnings disproportionately from our competitors. Further, we may have difficulty in predicting our operating profitability due to our stock option expense, which could affect future earnings or guidance.

Our adoption of this accounting standard on March 26, 2006, may result in a material adverse impact on our financial results. We will be required to expense stock options and other share-based payments to employees and directors, which will require us to record a significant charge to earnings. We continue to evaluate our stock-based compensation programs to determine what our alternatives may be to reduce this charge in the future. If we choose not to issue stock options at the levels we have in the past, or our shareholders do not approve the use of certain stock-based compensation programs, we believe we may face difficult challenges in attracting and retaining employees.

***Because we depend on subcontractors primarily located in Asia to perform key manufacturing functions for us, we are subject to political and economic risks that could disrupt the assembly, packaging, or testing of our products.***

We depend on third-party subcontractors, primarily in Asia, for the assembly, packaging and testing of our products. International operations and sales may be subject to political and economic risks, including changes in current tax laws, political instability, global health conditions, currency controls, exchange rate fluctuations and changes in import/export regulations, tariff and freight rates, as well as the risks of natural disaster. Although we seek to reduce our dependence on subcontractors, this concentration of subcontractors and manufacturing operations in Asia subjects us to the risks of conducting business internationally, including political and economic conditions in Asia. Disruption or termination of the assembly, packaging or testing of our products could occur and such disruptions could harm our business and operating results.

***We may acquire other companies or technologies, which may create additional risks associated with our ability to successfully integrate them into our business.***

We continue to consider future acquisitions of other companies, or their technologies or products, to improve our market position, broaden our technological capabilities and expand our product offerings. However, we may not be able to acquire, or successfully identify, the companies, products or technologies that would enhance our business.

In addition, if we are able to acquire companies, products or technologies, we could experience difficulties in integrating them. Integrating acquired businesses involves a number of risks, including, but not limited to:

- the potential disruption of our ongoing business,
- unexpected costs or incurring unknown liabilities,
- the diversion of management resources from other business concerns while involved in identifying, completing, and integrating acquisitions,
- the inability to retain the employees of the acquired businesses,
- difficulties relating to integrating the operations and personnel of the acquired businesses,
- adverse effects on the existing customer relationships of acquired companies,
- the potential incompatibility of business cultures,
- adverse effects associated with entering into markets and acquiring technologies in areas in which we have little experience, and
- acquired intangible assets becoming impaired as a result of technological advancements, or worse-than-expected performance of the acquired company.

If we are unable to successfully address any of these risks, our business could be harmed.

***Future transactions may limit our ability to use our net operating loss carryforwards.***

As of March 25, 2006, we had U.S. federal tax net operating loss (“NOL”) carryforwards of approximately \$465.8 million. These NOL carryforwards may be used to offset future taxable income and thereby reduce our U.S. federal income taxes otherwise payable. There is a risk we may not be able to generate taxable income in the future in the amount necessary to fully utilize all of these NOLs. Section 382 of the Internal Revenue Code of 1986 (“the Code”), as amended, imposes an annual limit on the ability of a corporation that undergoes an “ownership change” to use its NOL carry forwards to reduce its tax liability. Due in part to potential changes in our shareholder base, we may at some point in the future experience an “ownership change” as defined in Section 382 of the Code.

Accordingly, our use of the net operating loss carryforwards and credit carryforwards may be limited by the annual limitations described in Sections 382 and 383 of the Code.

***Our stock price may be volatile.***

The market price of our common stock fluctuates significantly. This fluctuation is the result of numerous factors, including:

- actual or anticipated fluctuations in our operating results,
- announcements concerning our business or those of our competitors, customers or suppliers,
- changes in financial estimates by securities analysts or our failure to perform as anticipated by the analysts,
- announcements regarding technological innovations or new products by us or our competitors,
- announcements by us of significant acquisitions, strategic partnerships, joint ventures, or capital commitment,
- announcements by us of significant divestitures or sale of certain assets or intellectual property,
- litigation arising out of a wide variety of matters, including, among others, employment matters and intellectual property matters,
- departure of key personnel,
- single significant shareholders selling for reasons unrelated to the business,
- general assumptions made by securities analysts,
- general conditions in the IC industry, and
- general market conditions and interest rates.

***We have provisions in our charter, and are subject to certain provisions of Delaware law, which could prevent, delay or impede a change of control of our company. These provisions could affect the market price of our stock.***

Certain provisions of our Certificate of Incorporation and By-Laws, and Delaware law could make it more difficult for a third party to acquire us, even if our stockholders support the acquisition. These provisions include:

- the inability of stockholders to call a special meeting of stockholders;
- a prohibition on stockholder action by written consent; and
- a requirement that stockholders provide advance notice of any stockholder nominations of directors or any proposal of new business to be considered at any meeting of stockholders.

We are also subject to the anti-takeover laws of Delaware that may prevent, delay or impede a third party from acquiring or merging with us, which may adversely affect the market price of our common stock.

***ITEM 1B. Unresolved Staff Comments***

None.

***ITEM 2. Properties***

The company does not own any real estate. As of May 1, 2006, our principal leased facilities, located in Austin, Texas, consisted of approximately 214,000 square feet of office space, which have lease terms that extend through 2012, excluding renewal options. This leased space includes our headquarters and engineering facility, which has 197,000 square feet and 17,000 square feet of leased space at our failure analysis facility. We have subleased approximately 70,000 square feet of space at our Austin headquarters and engineering facilities. These subleases extend through 2012.

We also lease facilities in Fremont, California. These facilities consist of approximately 430,000 square feet of leased office and engineering space, which have leases that expire from fiscal year 2007 to fiscal year 2010, excluding renewal options. During fiscal year 2006, we sold all of our digital video product line assets, which were

for the most part located in California, to Magnum Semiconductor, Inc. As a result of our facilities consolidation activities, which began in fiscal year 1999 concurrent with our move of headquarters from California to Texas, and the sale of our digital video product line assets, we no longer occupy any leased space in California. We have subleased approximately 263,000 square feet of our leased office space in California. We continue to actively pursue sublease tenants for these remaining facilities.

Below is a detailed schedule that identifies our occupied leased property locations as of May 1, 2006 with various lease terms through fiscal year 2013:

Design Centers	Sales Support Offices – USA	Sales Support Offices - International
Boulder, Colorado	Boulder, Colorado	Hong Kong, China
Beijing, China	Burlington, Massachusetts	Shanghai, China
Austin, Texas	Portland, Oregon	Shenzhen, China
		Tokyo, Japan
		Singapore
		Seoul, South Korea
		Taipei, Taiwan
		Henley on Thames, United Kingdom

See Notes 6 and 10 in the Notes to our Consolidated Financial Statements contained in “*Item 8 – Financial Statements and Supplementary Data*” for further detail.

ITEM 3. Legal Proceedings

Fujitsu

On October 19, 2001, we filed a lawsuit against Fujitsu, Ltd. (“Fujitsu”) in the United States District Court for the Northern District of California. We asserted claims for breach of contract and anticipatory breach of contract and we sought damages in excess of \$46 million. The basis for our complaint was Fujitsu’s refusal to pay for hard disk drive-related chips delivered to and accepted by it in fiscal year 2002. On December 17, 2001, Fujitsu filed an answer and a counterclaim. Fujitsu alleged claims for breach of contract, breach of warranty, quantum meruit/equitable indemnity and declaratory relief. The basis for Fujitsu’s counterclaim was the allegation that certain chips that we sold to Fujitsu were defective and allegedly caused Fujitsu’s hard disk drives to fail.

On December 5, 2003, for reasons related to the potential lack of jurisdiction for certain claims in federal district court, Fujitsu filed a complaint in California state court alleging claims substantially similar to those filed against us in district court and, in addition, alleging fraud and other related claims against Amkor and Sumitomo. On December 23, 2003, we filed a cross-complaint in California state court alleging the same claims against Fujitsu as we alleged in federal district court and further alleging fraud and other related claims against Amkor and Sumitomo based on their alleged knowledge that the molding compound used in the packaging materials sold to us was defective.

On April 28, 2005, before the rescheduled trial date, Cirrus Logic, Fujitsu, Amkor, Sumitomo, and Cirrus Logic’s insurance carriers reached an agreement through an arbitration process to settle and release all pending claims related to the alleged failure of certain semiconductor ICs sold by Cirrus Logic to Fujitsu. These releases included releases between our insurance carriers and us for any claims related to the litigation with Fujitsu. As part of the settlement, Fujitsu received \$45 million from Sumitomo, \$40 million from Amkor, and \$40 million from Cirrus Logic’s insurance carriers. Fujitsu paid us a lump sum in the amount of \$25 million. The final settlement documents were completed on June 10, 2005, and payment was received on June 16, 2005. Part of the \$25 million received from the settlement represented a recovery of bad debt expense recorded in fiscal year 2002 of approximately \$46.8 million. The \$25 million received was partially offset by approximately \$0.2 million in outside fees associated with this transaction. The net amount was recorded as a separate line item as a component of operating expenses during the first quarter of fiscal year 2006.

St. Paul Fire and Marine Insurance Company

On June 9, 2004, we filed a complaint for declaratory relief against St. Paul Fire and Marine Insurance Co. (“St. Paul”) in the United States District Court, Northern District of California. Specifically, the complaint seeks a judicial determination and declaration that the Technology Commercial General Liability Protection (“CGL”) coverage under an insurance policy issued to us by St. Paul provides Cirrus Logic with insurance coverage for

Cirrus Logic’s defense of claims brought by Fujitsu in the previously referenced matter. Pursuant to our CGL policy, the costs and expenses associated with defending our lawsuit against Fujitsu would be covered, but would not reduce the policy coverage limits. On August 23, 2004, St. Paul answered the complaint, denying that it was obligated to defend us under the CGL policy.

Based on the settlement and releases agreed to by the insurance carriers as set forth in the Fujitsu matter, we believe this matter has been resolved between Cirrus Logic and St. Paul. On August 2, 2005, the district court dismissed the case without prejudice.

Facilities Under Operating Lease Agreements

We lease our facilities under operating lease agreements. Our principal facility, located in Austin, Texas, is 197,000 square feet and houses our headquarters and engineering facility. As originally drafted, the lease agreement for this facility included a potential obligation to enter into another lease agreement for a period of 10 years for an additional 64,000 square feet in a new building to be built on property next to our current facility. This obligation was contingent upon construction beginning on the new facility before November 10, 2004. On September 14, 2004, our landlord provided us notice that it had elected to construct the new building.

On November 12, 2004, we filed suit against our landlord in the state district court of Travis County, Texas seeking declaratory relief as to our obligations under the current operating lease agreement. Specifically, we sought a declaration that we had no obligation to lease additional space because the landlord did not commence construction of the new facility before November 10, 2004.

On November 30, 2005, we entered into a Settlement Agreement and Release with our landlord for the purpose of settling all claims associated with the suit. The settlement provided mutual releases associated with any obligations by either party with respect to leasing additional space in a new building. As part of the settlement, we paid our landlord \$150,000 and agreed to amend the current lease such that we are now bound to maintain our existing Letter of Credit in the amount of \$5.1 million until November 2011, at which point the requirement decreases to \$2.6 million with the Letter of Credit ceasing in May 2012. This modifies the original letter of credit in that the new letter of credit does not decline until November 2011. All claims and counterclaims in the suit were dismissed on December 13, 2005.

Silvaco Data Systems

On December 8, 2004, Silvaco Data Systems (“Silvaco”) filed suit against us, and others, alleging misappropriation of trade secrets, conversion, unfair business practices, and civil conspiracy. Silvaco’s complaint stems from a trade secret dispute between Silvaco and a software vendor, Circuit Semantics, Inc., who supplies us with certain software design tools. Silvaco alleges that our use of Circuit Semantic’s design tools infringes upon Silvaco’s trade secrets and that we are liable for compensatory damages in the sum of \$10 million. Silvaco has not indicated how it will substantiate this amount of damages and we are unable to reasonably estimate the amount of damages, if any.

On January 25, 2005, we answered Silvaco’s complaint by denying any wrong-doing. In addition, we filed a cross-complaint against Silvaco alleging breach of contract relating to Silvaco’s refusal to provide certain technology that would enable us to use certain unrelated software tools.

We intend to defend the lawsuit vigorously. In addition, Circuit Semantics is obligated to defend and indemnify us pursuant to our license agreement with them for the software. However, we cannot predict the ultimate outcome of this litigation and we are unable to estimate any potential liability we may incur.

Other Claims

From time to time, other various claims, charges and litigation are asserted or commenced against us arising from, or related to, contractual matters, intellectual property, employment disputes, as well as other issues. Frequent claims and litigation involving these types of issues are not uncommon in the IC industry. As to any of these claims or litigation, we cannot predict the ultimate outcome with certainty.

ITEM 4. Submission of Matters to a Vote of Security Holders

None.

PART II

ITEM 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our Common Stock is traded on the NASDAQ National Market under the symbol CRUS. The following table shows, for the periods indicated, the high and low sales prices for our Common Stock.

	High	Low
Fiscal year ended March 26, 2005		
First quarter	\$ 8.46	\$ 4.50
Second quarter	6.79	4.50
Third quarter	6.37	4.75
Fourth quarter	5.69	4.23
Fiscal year ended March 25, 2006		
First quarter	\$ 5.72	\$ 3.70
Second quarter	8.04	4.90
Third quarter	7.76	6.26
Fourth quarter	8.76	6.65

As of May 19, 2006, there were approximately 1,071 holders of record of our Common Stock.

We have not paid cash dividends on our Common Stock and currently intend to continue a policy of retaining any earnings for reinvestment in our business. We did not repurchase any of our Common Stock during fiscal year 2006 or fiscal year 2005.

Equity Compensation Plan Information

The following table provides information about the Company’s common stock that may be issued upon the exercise of options, warrants and rights under all of the Company’s existing equity compensation plans as of March 25, 2006, including the Company’s 1987 Stock Option Plan, the 1989 Employee Stock Purchase Plan, the 1990 Directors’ Stock Option Plan, the 1996 Stock Plan, the 2002 Stock Option Plan, the Audio Logic 1992 Plan, the Peak Audio, Inc. 2001 Stock Plan, the LuxSonor Semiconductors, Inc. 1995 Stock Option Plan, the ShareWave, Inc. 1996 Flexible Stock Incentive Plan, the Stream Machine Company 1996 Stock Plan, the Stream Machine 2001 Stock Plan, and the Stream Machine Company non-statutory stock option grants made outside of a plan (in thousands, except per share amounts):

	(A) Securities to be issued upon exercise of outstanding options, warrants, and rights	(B) Weighted-average exercise price of outstanding options, warrants, and rights	(C) Securities remaining available for future issuance under equity compensation plans (except securities in column (A))
Equity compensation plans approved by security holders (1)	6,915	\$11.21	8,020(2)
Equity compensation plans not approved by security holders (3)	5,045	\$ 5.82	9,961
Total	<u>11,960</u>	\$ 8.93	<u>17,981</u>

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1. The Company’s stockholders have approved the Company’s 1987 Stock Option Plan, the 1989 Employee Stock Purchase Plan, the 1990 Directors’ Stock Option Plan, and 1996 Stock Plan. The following plans were assumed by the Company at the time of acquisition, and Cirrus Logic stockholder approval was not required for these plans or their respective outstanding grants, as they were approved by the acquired



- companies shareholders: the Audio Logic 1992 Plan, the Peak Audio, Inc. 2001 Stock Plan, the LuxSonor Semiconductors, Inc. 1995 Stock Option Plan, the ShareWave, Inc. 1996 Flexible Stock Incentive Plan, the Stream Machine Company 1996 Stock Plan, the Stream Machine 2001 Stock Plan, and the Stream Machine Company non-statutory stock option grants made outside of a plan.
2. In addition to shares available for issuance under our 1996 Stock Plan and 2002 Stock Option Plan, the number reported includes (i) 926,056 shares available for issuance under the Company’s 1989 Employee Stock Purchase Plan and (ii) 82,296 shares available for issuance under the Company’s 1990 Directors’ Stock Option Plan, under which only members of the Company’s Board of Directors can receive option grants. Our Board of Directors discontinued all future grants under the option plans we assumed in connection with our past acquisitions, including the Audio Logic 1992 Plan, the Peak Audio, Inc. 2001 Stock Plan, the LuxSonor Semiconductors, Inc. 1995 Stock Option Plan, the ShareWave, Inc. 1996 Flexible Stock Incentive Plan, the Stream Machine Company 1996 Stock Plan, and the Stream Machine 2001 Stock Plan, so shares under these plans have not been included in the total.
3. In August 2002, the Board of Directors approved the 2002 Stock Option Plan, which permits awards of fair market value stock options to non-executive employees. This plan contains an evergreen provision such that on the first business day of each fiscal year beginning with March 31, 2003, the plan shall be increased by a number equal to 4 percent of the number of shares outstanding as of the last business day of the immediately preceding fiscal year.

As of March 25, 2006, the Company was awarding options under the following plans: the 1990 Directors’ Stock Option Plan (to members of the Board of Directors), the 1996 Stock Plan, the 2002 Stock Option Plan, and the 1989 Employee Stock Purchase Plan. The 1996 Stock Plan expired in May 2006.

**ITEM 6. Selected Consolidated Financial Data**  
(Amounts in thousands, except per share amounts)

The consolidated selected financial information below has been restated as set forth in this Form 10-K/A. The data for the fiscal years ended March 29, 2003, and March 30, 2002 have been restated as set forth in this Form 10-K/A. The information set forth below is not necessarily indicative of results of future operations, and should be read in conjunction with Item 7, “Management’s Discussion and Analysis — Financial Condition and Results of Operations” and the Consolidated Financial Statements and related notes thereto included in Item 8 of this Form 10-K/A to fully understand factors that may affect the comparability of the information presented below. The information presented in the following tables has been adjusted to reflect the restatement of our financial results, which is more fully described in Management’s Discussion and Analysis — Restatement of Consolidated Financial Statements and in Note 1A of the Consolidated Financial Statements of this Form 10-K/A.

We have not amended any other previously-filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for the periods affected by this restatement except for the Form 10-Q/A for the first quarter of fiscal year 2007, which will be filed concurrently with this Form 10-K/A. The financial information that has been previously filed or otherwise reported for these periods is superseded by the information in this Amended Annual Report on Form 10-K/A, and the financial statements and related financial information contained in previously-filed reports for those periods should no longer be relied upon.

Cirrus Logic, Inc. Five-Year Financial Highlights Summary (in thousands, except per share data)									
	2006 <sup>(1)</sup>	2005 <sup>(1)</sup>	2004 <sup>(1)</sup>	2003 <sup>(2) (3)</sup>			2002 <sup>(2) (4)</sup>		
	Restated	Restated	Restated	Previously Reported	Adjustments	Restated	Previously Reported	Adjustments	Restated
<b>Operations:</b>									
Net revenue	\$ 193,694	\$ 194,900	\$ 196,338	\$ 261,999	\$ -	\$ 261,999	\$ 410,976	\$ -	\$ 410,976
Gross profit	105,192	93,262	100,701	132,242	(82)	132,160	96,749	(115)	96,634
Income (loss) from operations	37,596	(38,616)	21,885	(203,888)	(6,986)	(210,874)	(232,590)	(9,799)	(242,389)
Income (loss) before income taxes	45,391	(34,285)	35,789	(201,579)	(6,986)	(208,565)	(214,451)	(9,799)	(224,250)
Income tax benefit	(7,035)	(20,789)	(7,059)	(3,818)	-	(3,818)	(10,370)	-	(10,370)
Net income (loss)	52,426	(13,496)	42,848	(199,213)	(6,986)	(206,199)	(206,079)	(9,799)	(215,878)
Earnings (loss) per share:									
Basic	\$ 0.61	\$ (0.16)	\$ 0.51	\$ (2.39)	\$ (0.08)	\$ (2.47)	\$ (2.66)	\$ (0.13)	\$ (2.79)
Diluted	\$ 0.60	\$ (0.16)	\$ 0.50	\$ (2.39)	\$ (0.08)	\$ (2.47)	\$ (2.66)	\$ (0.13)	\$ (2.79)
Weighted Average Common Shares Outstanding:									
Basic	86,036	84,746	84,019	83,445		83,445	77,552		77,552
Diluted	87,775	84,746	85,602	83,445		83,445	77,552		77,552

	2006 <sup>(1)</sup>	2005 <sup>(1)</sup>	2004 <sup>(2)</sup>		
	Restated	Restated	Previously Reported	Adjustments	Restated
<b>Financial Position:</b>					
Cash, cash equivalents, restricted investments and marketable securities	\$ 243,468	\$ 179,713	\$ 200,141	\$ -	\$ 200,141
Current assets	272,157	230,534	253,128	-	253,128
Current liabilities	39,968	47,251	82,836	1,394	84,230
Working capital	232,189	183,283	170,292	(1,394)	168,898
Total assets	319,041	262,810	314,672	-	314,672
Stockholders' equity	264,270	203,206	214,099	(1,394)	212,705

	2003 <sup>(2) (3)</sup>			2002 <sup>(2) (4)</sup>		
	Previously Reported	Adjustments	Restated	Previously Reported	Adjustments	Restated
<b>Financial Position:</b>						
Cash, cash equivalents, restricted investments and marketable securities	\$ 123,351	\$ -	\$ 123,351	\$ 155,594	\$ -	\$ 155,594
Current assets	176,695	-	176,695	243,933	-	243,933
Current liabilities	80,909	1,335	82,244	116,455	1,264	117,719
Working capital	95,786	(1,335)	94,451	127,478	(1,264)	126,214
Total assets	257,266	-	257,266	481,630	-	481,630
Stockholders' equity	163,527	(1,335)	162,192	358,149	(1,264)	356,885

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- The Five-Year Financial Highlights Summary for fiscal years 2006, 2005 and 2004 has been restated to reflect adjustments. See Management’s Discussion and Analysis — Restatement of Consolidated Financial Statements and Note 1A of the “Notes to Consolidated Financial Statements” for a discussion of these adjustments.
  - The operations data for 2003 and 2002, and the financial position data for 2004, 2003 and 2002, have been revised to reflect adjustments related to the restatement described in Management’s Discussion and Analysis — Restatement of Consolidated Financial Statements and in Note 1A of the “Notes to Consolidated Financial Statements.” Pre-tax adjustments recorded in 2003 and 2002 included non-cash share-based compensation expense totaling \$7.0 million and \$9.8 million, respectively.
  - Fiscal year 2003 included items such as \$136.2 million in goodwill impairment and \$4.6 million in lease termination costs that are unusual and infrequent in nature and are not part of the continuing operations of the business.
  - Fiscal year 2002 included items such as \$73.1 million in allowance for doubtful accounts related to an exited product line, a \$69.4 million inventory charge primarily associated with the exit from a product line and \$31.1 million in acquired in-process research and development expense that are unusual and infrequent in nature and are not part of the continuing operations of the business.

**ITEM 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

The following information has been amended to reflect the restatement of our financial results, which is more fully described in the Management’s Discussion and Analysis — Restatement of Consolidated Financial Statements, below, and in Note 1A to Consolidated Financial Statements of this Form 10-K/A.

This Amended Annual Report on Form 10-K/A and certain information incorporated herein by reference contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities the Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements included or incorporated by reference in this Amended Annual Report on Form 10-K/A, other than statements that are purely historical, are forward-looking statements. In some cases, forward-looking statements are identified by words such as we “expect,” “anticipate,” “target,” “project,” “believe,” “goals,” “estimates,” and “intend.” Variations of these types of words and similar expressions are intended to identify these forward-looking statements. These forward looking statements include statements about our outlook for fiscal year 2007, including our anticipated gross margins; research and development expenses; selling, general and administrative expenses, and operating profitability. In addition, any statements that refer to our plans, expectations, strategies or other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned that these forward-looking statements are predictions and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Among the important factors that could cause actual results to differ

materially from those indicated by our forward-looking statements are those discussed in “*Item 1A —Risk Factors Affecting our Business and Prospects*” and elsewhere in this report, as well as in the documents filed by us with the Securities and Exchange Commission, specifically the most recent reports on Form 10-Q and 8-K, each as it may be amended from time to time. We undertake no obligation to revise or update publicly any forward-looking statement for any reason.

Certain reclassifications have been made to prior periods to conform to the fiscal year 2006 presentation. We now classify amortization of acquired intangibles as part of research and development expense on the face the income statement as well as certain balance sheet item classifications. These reclassifications had no effect on the results of operations or stockholders’ equity

**Restatement of Consolidated Financial Statements**

We are restating our Consolidated Financial Statements to reflect the results of our voluntary review of our stock option granting practices. Our decision to restate our Consolidated Financial Statements was based on the results of a voluntary internal review and independent investigation into past stock option granting practices. In October 2006, we announced that an internal review of past practices related to grants of stock options had revealed information that raised potential questions about the measurement dates used to account for certain stock option grants. We also announced that, at the recommendation of the Audit Committee of the Company’s Board of Directors (the “Board”), the Board appointed an independent director to serve as a Special Committee to conduct an investigation into our historic stock option granting practices.

The Special Committee retained independent legal counsel to assist in the investigation. During the eight month investigation, the Special Committee and its independent counsel, assisted by independent forensic accountants, reviewed the facts and circumstances surrounding monthly and annual stock option grants made to executive officers, employees and non-employee directors, searched relevant physical and electronic documents and interviewed current and formers directors, officers and employees. This review included an examination of all stock option grants from January 1, 1997 to December 31, 2006, encompassing approximately 42.3 million stock options granted to employees and non-employee directors on 148 different grant dates. The Special Committee’s legal and accounting advisors identified, preserved, collected, and reviewed over 104 gigabytes of electronic information, including approximately 1.6 million pages of electronic and hard copy files, and conducted 25 interviews of current and former employees and members of the Board.

In March 2007, we announced that the Special Committee had reported its principal findings to the Board relating to the above investigation. Based on the report of the Special Committee and on management’s preliminary conclusions and recommendations, the Board concluded that incorrect measurement dates were used for financial accounting purposes for certain stock options granted between January 1, 1997 and December 31, 2005. We disclosed the fact that the anticipated non-cash charges required to correct the discrepancy would be material and that we expected to restate our financial statements for the fiscal years 2002 through 2006 and for the first quarter of fiscal year 2007. Accordingly, we announced that based on the findings of the Special Committee, and the recommendations of management and the Audit Committee, the Board had concluded that the financial statements, related notes and selected financial data and all financial press releases and similar communications issued by us and the related reports of the Company’s independent registered public accounting firm relating to fiscal periods 2002 through 2006, and the first fiscal quarter of 2007, should no longer be relied upon.

As a result of the findings of the Special Committee detailed below, the Company has recognized \$32.4 million in additional share-based compensation expense arising from stock grants to executive officers and employees. Of this amount, approximately \$9.3 million related to related to options granted to executive officers who, at the time of the grant, were subject to the reporting requirements under Section 16 of the Exchange Act of 1934. The Special Committee arrived at the following principal findings with respect to the stock option practices of the Company:

- The Company’s stock plan administrative deficiencies between January 1, 1997 and December 31, 2005 led to a number of misdated option grants.
  - o New hire and other promotion and retention option grants were generally made the first Wednesday of each month through the use of unanimous written consents (“UWCs”) of the Company’s Compensation Committee. However, prior to January 2006, many of these monthly grants were misdated, as grant dates were routinely established before the receipt of all the signed UWCs authorizing those grants. Of the \$32.4 million in additional share-based compensation expense, \$6.1 million related to these types of errors.
  - o Many other off-cycle and broad-based annual option grants that were granted through Board or Compensation Committee resolutions were also misdated due to administrative issues in that grant dates were sometimes established before the list of option award recipients had been finalized. Of

- o the \$32.4 million in additional share-based compensation expense, \$4.3 million related to these types of errors.
  - o Beginning in late 2002, the Company formally documented and updated its existing processes and procedures with respect to the granting of options. In 2005, the Company further refined the process and, in 2006, a formal written policy was approved by the Compensation Committee.
  - o Approximately 97% of the potential stock-based compensation charges identified as a result of the Special Committee investigation resulted from grants that were made prior to December 31, 2002.
- Prior to 2003, the limited controls and the lack of definitive processes for stock option granting and approval allowed for potential abuse, including the use of hindsight, in the establishment of more favorable grant dates for certain options.
  - o The Special Committee identified three grant dates prior to 2003 on which three management-level employees received new-hire option grants on dates other than when they began rendering services to the Company. Of the \$32.4 million in additional share-based compensation expense, \$1.4 million related to these types of errors.
  - o The grant date for one grant in 2000 is different from the date the grant appears to have been approved by the Board. While no definitive evidence has been identified to clarify this inconsistency, the selected grant date was at a lower closing stock price than the price on the date of apparent board approval.
  - o Based on the evidence developed in the investigation, the Special Committee believes that certain executive officers had knowledge of and participated in the selection of three grant dates for broad-based employee option grants in the 2000 through 2002 timeframe, either with hindsight or prior to completing the formal approval process. Of the \$32.4 million in additional share-based compensation expense, \$12.0 million related to these types of errors.
  - o The executive officers involved in the option grant process prior to 2003, and in particular the grants described above in the 2000 through 2002 timeframe, were no longer with the Company as of the date the Special Committee reported its findings to the Board with the exception of David D. French, the Company's President and Chief Executive Officer.
  - o In light of the findings, as of March 5, 2007, David D. French resigned as President and Chief Executive Officer and as a director of the Company. The Company has entered into a resignation agreement with Mr. French.
- The Special Committee believes that Mr. French was significantly involved in the grant approval process for certain grants and that he influenced the grant process with a view toward the stock price, and therefore the selection of grant dates, through his control over how quickly or slowly the process was completed. However, the Special Committee does not believe that Mr. French appreciated the significance of the procedural inadequacies or the accounting implications of the grant approval process or grant date selections, or that he was advised by his executive staff of any such inadequacies or implications.
- The Special Committee did not find any irregularities associated with any grants to independent directors or the Company's two broad-based options exchanges during the relevant period.
- The Special Committee found no documentary or testimonial evidence that the Company's independent directors were aware of any attempts by the Company's executive officers to backdate or to otherwise select a favorable grant date, and consequently, had no reason to and did not believe that the accounting or other disclosures were inaccurate.
- The Special Committee further found that the evidence indicates that the independent directors relied upon management to ensure that the Board and Compensation Committee's grant approvals complied with the Company's stock option plans and applicable laws and accounting rules.

Based on the results of its investigation, the Special Committee has recommended a number of remedial actions. The Company is currently reviewing these recommendations and developing and implementing a remediation plan associated with historical stock option grants and the grant of future equity awards. Based on its review of the Special Committee's findings, the Company does not believe that, in the few instances when stock grant dates were selected by management either with hindsight or prior to receiving all required approvals, that any employee, who at the time of the grant was an executive officer, has exercised or realized any financial gain from those grants.

Subsequent to our press release dated March 2, 2007, the Company identified two other issues based upon the findings of the Special Committee that led to an increase of \$8.6 million in additional share-based compensation expense recognized in the consolidated financial statements in excess of the previous estimate of \$22 million to \$24 million. These issues are described as follows:

- Our previous estimate should have included the intrinsic value of 1.8 million options canceled in relation to a Company wide option exchange in fiscal year 2003, which led to an increase in share-based compensation expense. Under EITF 00-23, "*Issues Related to the Accounting for Stock Compensation under APB Opinion No. 25 and FASB Interpretation No. 44*," Issue 37(a), the compensation cost measured

on the original grant date of the re-priced stock option grants that remained unrecognized at the time of the option exchange should have been immediately recognized as expense on the day of the exchange and included in our original estimate. Of the \$8.6 million in additional share-based compensation expense beyond our previous estimate, \$6.5 million related to the correction of this error.

- Our previous estimate should have included certain share-based compensation expenses related to certain modifications to the terms of stock options grants for certain individual employees at the time of their termination. Of the \$8.6 million in additional share-based compensation expense beyond our previous estimate, \$2.1 million related to correction of these types of errors.

As of the date of this filing, the Company has paid a total of approximately \$2.9 million to independent legal counsel, independent forensic accountants, and our independent registered public accounting firm in connection with the eight month investigation into past stock option granting practices.

Summary

In accordance with Accounting Principles Board Opinion No. 25 (“APB No. 25”), “*Accounting for Stock Issued to Employees*,” our restated consolidated financial statements reflect additional compensation expense to the extent the fair market value of a share of our common stock on the correct measurement date exceeded the exercise price of the option. The additional non-cash compensation expense was amortized over the required service period, generally over the vesting periods of the respective grants. The following shows the share-based compensation adjustments and the related tax effects of all adjustments for fiscal years 2002 through 2006. The decrease in net income for each type of adjustment is as follows (in thousands):

	Net Income (Loss) [Previously Reported]	Non-cash Stock Compensation Expense Adjustment	Tax Effect of Adjustment	Total Adjustments	Net Income (Loss) [Restated]
Fiscal Year 2002	\$ (206,079)	\$ (9,799)	\$ -	\$ (9,799)	\$ (215,878)
Fiscal Year 2003	(199,213)	(6,986)	-	(6,986)	(206,199)
Fiscal Year 2004	46,503	(3,655)	-	(3,655)	42,848
Fiscal Year 2005	(13,388)	(108)	-	(108)	(13,496)
Fiscal Year 2006	54,145	(1,719)	-	(1,719)	52,426

The effect that these adjustments had on diluted earnings per share for the fiscal years 2002 to 2006 is as follows:

	Earnings (Loss) Per Share [Previously Reported]	Adjustments	Earnings (Loss) Per Share [Restated]
Fiscal Year 2002	\$ (2.66)	\$ (0.13)	\$ (2.79)
Fiscal Year 2003	(2.39)	(0.08)	(2.47)
Fiscal Year 2004	0.54	(0.04)	0.50
Fiscal Year 2005	(0.16)	(0.00)	(0.16)
Fiscal Year 2006	0.62	(0.02)	0.60

The cumulative effect on stockholders’ equity as of March 25, 2006 resulting from the restatement of share-based compensation is as follows (in thousands):

Adjustments to Stockholder’s Equity	Paid-in Capital	Retained Earnings	Unearned Deferred Compensation	Net Impact to Stockholders’ Equity
Fiscal Year 2003 & Prior	29,392	(26,941)	(3,786)	(1,335)
Fiscal Year 2004	2,109	(3,655)	1,487	(59)
Fiscal Year 2005	(481)	(108)	1,452	863
Fiscal Year 2006	1,592	(1,719)	514	387
Total effect - all fiscal years	<u>\$32,612</u>	<u>\$(32,423)</u>	<u>\$ (333)</u>	<u>\$ (144)</u>

The net impact to Stockholder’s Equity detailed above was completely offset by a change in other accrued liabilities for each period presented. These were the only adjustments made to our consolidated balance sheet as a

result of the restatement. The net book value of our deferred tax assets did not change as a result of the restatement as we continue to provide a full valuation allowance against them.

Share-Based Compensation

The incremental effect of recognizing additional share-based compensation expense resulting from grants with incorrect measurement dates is as follows (in thousands):

	Pre-Tax Expense	After-Tax Expense
Fiscal Year 1998	326	326
Fiscal Year 1999	2,083	2,083
Fiscal Year 2000	2,100	2,100
Fiscal Year 2001	5,647	5,647
Fiscal Year 2002	9,799	9,799
Fiscal Year 2003	6,986	6,986
Total 1998 – 2003 effect	26,941	26,941
Fiscal Year 2004	3,655	3,655
Fiscal Year 2005	108	108
Fiscal Year 2006	1,719	1,719
	5,482	5,482
	<u>\$ 32,423</u>	<u>\$ 32,423</u>

Litigation Summary

On January 5, 2007, a purported stockholder filed a derivative lawsuit in state district court in Travis County, Texas against current and former officers and directors of Cirrus Logic and against the Company, as a nominal defendant, alleging various breaches of fiduciary duties, conspiracy, improper financial reporting, insider trading, violations of the Texas Securities Act, unjust enrichment, accounting, gross mismanagement, abuse of control, rescission, and waste of corporate assets related to certain prior grants of stock options by the Company. Our response to the lawsuit is currently due on April 20, 2007.

On March 19, 2007, another purported stockholder filed a derivative lawsuit related to the Company’s prior stock option grants in the United States District Court for the Western District of Texas — Austin Division against current and former officers and directors of Cirrus Logic and against the Company, as a nominal defendant. The individual defendants named in this lawsuit overlap, but not completely, with the state suit. The lawsuit alleges many of the causes of action alleged in the Texas state court suit, but also includes claims for alleged violations of Section 10(b) of the Exchange Act and Rule 10b-5, violations of Section 14(a) of the Exchange Act and violations of Section 20(a) of the Exchange Act. On April 10, 2007, we filed a motion to dismiss the complaint on the grounds that the plaintiff was supposed to make demands on the Board before filing the lawsuit. The plaintiff has not filed a response and no hearing before the court is currently set on the motion to dismiss.

On March 30, 2007, a different purported stockholder filed a nearly identical derivative lawsuit to the March 19, 2007 derivative lawsuit in the United States District Court for the Western District of Texas – Austin Division with identical allegations against the same defendants. We are currently evaluating this plaintiff’s claims.

Overview

We were incorporated in California in 1984, became a public company in 1989 and were reincorporated in the State of Delaware in February 1999. Through most of our corporate existence, we provided ICs for personal computer applications, including personal computer (“PC”) graphics and storage. Several years ago, we refocused our business efforts away from these areas, which we believed had become commodity-like in terms of pricing and offered diminished opportunities for sustained product differentiation and profitability. We have reinforced our commitment to maintain profitability by taking strategic actions during fiscal year 2005 and the first part of fiscal year 2006 to improve our top and bottom line growth. Some actions we have taken in the past fiscal year include, but are not limited to: (1) improving efficiencies by completing implementation of a product line structure focusing on our product lines including analog mixed-signal products, embedded products, and industrial products, (2) divesting ourselves of our digital video product line assets to focus on our core strengths, and (3) enhancing operations by moving to a completely fabless business model.

During fiscal year 2006, we completed the outstanding litigation with Fujitsu for a net \$24.8 million and enhanced our financial position by obtaining \$7 million from a one-time cash receipt associated with an amendment to an existing licensing agreement, in which certain rights to Cirrus Logic were terminated from a prior cross-license agreement. Further, we were able to realize a tax benefit of approximately \$7 million due to the expiration of certain statutes related to non-U.S. tax liabilities. We did not pay U.S. income taxes in fiscal year 2006 and we do not expect to incur regular U.S. income taxes in fiscal year 2007, as we have a large net operating loss (“NOL”) carryforward to offset tax liabilities for U.S.-sourced income. We do not expect to see the same level of tax benefits from the expiration of certain non-U.S. statutes of limitations during fiscal year 2007 that we experienced in fiscal year 2006. We may incur taxes in many of the non-U.S. and U.S. state tax jurisdictions in which we operate.

Over the course of fiscal year 2005, we enhanced our focus on operations and decreased our expenses in research and development and sales, general, and administrative by a total of \$22.7 million when compared to the previous year. We recorded an income tax benefit of \$20.8 million for fiscal year 2005 on a pre-tax loss of \$34.3 million. This benefit was the result of reversals of prior year U.S. Federal and non-U.S. tax liabilities.

During fiscal year 2004, we settled and received \$45 million from the settlement of outstanding commercial litigation with a storage product manufacturer named Western Digital Corp. We received a total of \$14.4 million, after expenses, from two patent infringement lawsuits with ATI Technologies and nVidia Corporation involving graphics patents. Finally, we received a net \$17 million related to a transaction with Broadcom Corporation for certain U.S. and international patents. Further, we also benefited from the sale of certain marketable securities for \$12 million.

Although we continue to defend our patents and investigate the potential for leveraging our intellectual property portfolio, we do not anticipate the same level of benefits we have received in the past to reoccur in the future. We have directed our efforts to become a leader in digital audio and high-performance analog and mixed-signal ICs for consumer entertainment, professional applications, automotive entertainment and high-precision industrial measurement applications. We offer more than 600 products to over 2,500 end customers worldwide through both direct and indirect sales channels. We target both large existing and emerging growth markets that derive value from our expertise in advanced analog and mixed-signal design processing, systems-level integrated circuit engineering and embedded software. End products incorporating our ICs are marketed by many of the world’s leading electronics companies, including Bose, Creative Technologies, Harman/Kardon, LG Electronics, Panasonic, Philips, Pioneer, Samsung, Siemens, Sony, Thomson S.A. and Yamaha, among others.

Our products include analog and mixed-signal products for consumer, professional, automotive, industrial, along with other analog and mixed-signal products; digital home audio processors and digital portable processors; commercial audio processors; automotive audio solutions; and embedded processors. Some common items our audio mixed-signal products may be found in include amplifiers, AVRs, DVD players and recorders, DVD receivers, set-top boxes, digital televisions, MP3 players, game consoles, car audio systems and satellite radios. The balance of our analog and mixed-signal IC components are primarily sold into industrial measurement applications, such as temperature gauges for industrial use, seismic devices for oil field and seismology applications and high-precision weigh scales for commercial and scientific use.

We maintain sales, design and technical support personnel in the U.S. and other locations near our customers. We have strategically aligned our personnel to provide better support to our base of system solution customers, most of which maintain design and/or manufacturing sites outside of the United States. We intend to continue to evaluate our employee headcount in these locations in order to maintain our high level of commitment and support to our customers.

We also contract with third parties for all of our wafer fabrication, assembly and testing operations. Our supply chain management organization is responsible for the management of all aspects of the manufacturing and testing of our products, including process and package development, test program development, and production testing of products in accordance with our ISO-certified quality management system. Our fabless manufacturing strategy allows us to concentrate on our design strengths, minimize fixed costs and capital expenditures, access advanced manufacturing facilities, and provide flexibility on sourcing through multiple qualified vendors.



Results of Operations

The following table summarizes the results of our operations for each of the past three fiscal years as a percentage of net sales. All percentage amounts were calculated using the underlying data in thousands:

	Twelve Months Ended		
	March 25, 2006	March 26, 2005	March 27, 2004
	Restated	Restated	Restated
Mixed-signal audio products	49%	49%	50%
Embedded products	27%	24%	24%
Industrial products	18%	18%	13%
Video products	6%	9%	12%
Other products	0%	0%	1%
Net sales	100%	100%	100%
Cost of sales	46%	52%	49%
Gross Margin	54%	48%	51%
Research and development	24%	41%	47%
Selling, general and administrative	26%	22%	27%
Restructuring and other, net	1%	5%	5%
Patent infringement settlements, net	0%	0%	(7%)
Litigation settlement, net	(13%)	0%	(23%)
License Agreement	(4%)	0%	0%
Patent agreement, net	0%	(0%)	(9%)
Total operating expenses	34%	68%	40%
Income (loss) from operations	20%	(20%)	11%
Realized gain on marketable securities	0%	0%	6%
Interest income, net	4%	2%	1%
Other income (expense), net	(0%)	0%	(0%)
Income (loss) before income taxes	24%	(18%)	18%
Benefit for income taxes	(4%)	(11%)	(4%)
Net income (loss)	28%	(7%)	22%

Net Sales

	March 25, 2006	March 26, 2005	March 27, 2004
Mixed-signal audio products	\$ 95,384	\$ 96,083	\$ 97,871
Embedded products	52,258	46,645	46,389
Industrial products	34,771	34,109	26,193
Video products	11,281	18,063	24,419
Other products	-	-	1,466
Total	\$ 193,694	\$ 194,900	\$ 196,338

Net sales for fiscal year 2006 decreased \$1.2 million, or 0.6 percent, to \$193.7 million from \$194.9 million in fiscal year 2005. Net sales from our embedded processor products were up \$5.6 million in fiscal year 2006 due to increased revenue from a non-recurring United States government project, as well as increased demand for ARM based products and our communications related products. We also saw revenue growth in our industrial product line, of which \$0.7 million was due to higher demand for our power meter products. These increases were offset by a decrease of \$6.8 million in net sales of our video products, as we sold our digital video related product line during fiscal year 2006. Net sales of our mixed-signal products decreased \$0.7 million due to various product mix changes between our digital-to-analog and analog-to-digital converters.

Net sales for fiscal year 2005 decreased \$1.4 million, or 1 percent, to \$194.9 million from \$196.3 million in fiscal year 2004. Net sales from our industrial products were up \$7.9 million in fiscal year 2005 due to increased demand in our seismic business. These increases were partially offset by a decrease of \$6.4 million in net sales of our video products in fiscal year 2005 from the prior year. The decrease in our video products was primarily attributable to missed design wins due to software compatibility issues coupled with a decrease in sales into the DVD player market, as manufacturers discontinued producing this highly commoditized product. Net sales from



mixed-signal products declined \$1.8 million due primarily to a continued decrease in demand for personal computer audio components, a market we have de-emphasized, while embedded product net sales increased \$0.3 million during fiscal year 2005. Net sales from our other products declined approximately \$1.4 million in fiscal year 2005 from the prior year due to sales related to a discontinued product line in fiscal year 2004.

Export sales, principally to Asia, including sales to U.S.-based customers with manufacturing plants overseas, were approximately \$127.6 million in fiscal year 2006, \$130.6 million in fiscal year 2005, and \$141.4 million in fiscal year 2004. Export sales to customers located in Asia were 52 percent of net sales in both fiscal years 2006 and 2005, and 59 percent of net sales in fiscal year 2004. All other export sales were 14 percent, 15 percent, and 13 percent of net sales in fiscal years 2006, 2005 and 2004, respectively.

Our sales are denominated primarily in U.S. dollars. During fiscal years 2006, 2005 and 2004, we did not enter into any foreign currency hedging contracts.

During fiscal year 2006, Avnet, Inc. acquired Memec Holdings Group. In the past, Memec Holdings Group was our largest distributor. Sales to Avnet, Inc. (formerly Memec Holdings Group) represented 25 percent, 27 percent and 20 percent in fiscal years 2006, 2005 and 2004, respectively. No other customers or distributors accounted for 10 percent or more of net sales in fiscal years 2006, 2005 or 2004. The loss of a significant customer or a significant reduction in a customer’s orders could have an adverse affect on our sales.

*Gross Margin*

Gross margin was 54.3 percent in fiscal year 2006, up from 47.9 percent in fiscal year 2005. In fiscal year 2006, we completed the sale of our digital video product line assets. Product mix changes and changes associated with selling the digital video product line assets resulted in an increase to gross margins of approximately 2.1 percentage points. The sale of product that had been written down in prior fiscal years contributed approximately \$4.1 million, or 2.1 percent of gross margin percentage compared with 1.4 percent contribution to margin in fiscal year 2005. In total, excess and obsolete inventory charges decreased by \$7.8 million from fiscal year 2005, which increased gross margins by 4.0 percentage points.

Gross margin was 47.9 percent in fiscal year 2005, down from 51.3 percent in fiscal year 2004. In fiscal year 2005, we completed the transition of our test operations to outside third party providers. During this transition, we did not decrease our internal test operations as much as we had anticipated which resulted in higher internal overhead costs. This increase in internal overhead resulted in a 1.6 percent decrease in our gross margin. Further, the sale of product that had been written down in prior fiscal years contributed approximately \$2.6 million, or 1.4 percent of gross margin percentage compared with a 1.7 percent contribution to margin in fiscal year 2004. Overall, inventory charges increased \$1.4 million, or 0.7 percent in fiscal year 2005 compared with the prior year, mainly due to write down charges associated with video related products.

We continue to see increased lead times from our various fabrication, assembly, and test service providers. We also have experienced rising costs associated with the increased cost of certain precious metals from our assembly providers. An increase in procurement lead times, precious metal costs and/or decrease in capacity may cause our costs to increase, which may slow our gross margin growth in fiscal year 2007.

*Research and Development Expenses*

Fiscal year 2006 research and development expenses decreased \$34.8 million from fiscal year 2005 due in large part to the decrease in expenses associated with the sale of the digital video product line assets in early fiscal year 2006 and our cost savings measures from fiscal year 2005. Research and development expenses, including amortization of acquired intangibles, decreased as a percentage of net sales to 23.6 percent in fiscal year 2006 from 41.3 percent in fiscal year 2005. Amortization of acquired intangibles decreased from \$13.7 million in fiscal year 2005 to \$1.4 million in fiscal year 2006.

Research and development expenses in fiscal year 2005 decreased \$11.4 million from fiscal year 2004 primarily due to fiscal year 2005 cost reductions and the realization of the full-year impact of the fiscal year 2004 cost reductions. Research and development expenses decreased as a percentage of net sales from 46.9 percent in fiscal year 2004 to 41.3 percent in fiscal year 2005. Research and development expense for fiscal years 2005 and 2004 now include \$13.7 million and \$14.4 million, respectively, of amortization of acquired intangible assets.

*Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased \$8.8 million in fiscal year 2006 compared to fiscal year 2005. This was primarily due to charges associated with \$4.4 million in loss contingency accruals on certain properties recently sub-leased to a third party by Cirrus Logic during the current year and a benefit recorded in fiscal year 2005 related to a \$3.0 million release of a use tax accrual coupled with a refund of \$2.3 million related to recovered non-U.S. goods and sales tax. Selling, general and administrative expenses increased as a percentage of net sales from 21.8 percent in fiscal year 2005 to 26.4 percent in fiscal year 2006.

Selling, general and administrative expenses decreased \$11.2 million in fiscal year 2005 from the prior year. Selling, general and administrated expenses benefited in fiscal year 2005 from a \$3.0 million release of a use tax accrual coupled with a refund of \$2.3 million related to recovered non-U.S. goods and sales tax. Further, selling, general and administrative expenses also benefited from the realization of the full-year impact of the fiscal year 2004 cost reduction efforts. Selling, general and administrative expenses decreased as a percentage of net sales from 27.4 percent in fiscal year 2004 to 21.8 percent in fiscal year 2005.

*Restructuring Costs and Other, net*

During the fiscal year 2006, we recorded a restructuring charge of \$3.1 million in operating expenses for severance and facility related items associated with workforce reductions related to the sale of the digital video product line assets and changes to sub-lease assumptions regarding exited facilities. This action affected approximately 10 individuals worldwide and resulted in a net charge of approximately \$0.4 million. In connection with the digital video product line asset sale, we ceased using certain leased office space in our Fremont, California location. Accordingly, we recorded a restructuring charge of \$2.7 million related to the exit from this facility. Partially offsetting the restructuring charge was \$0.8 million related to the gain on the digital video product line asset sale. For further detail, see Note 4, “*Non-marketable Securities.*”

During fiscal year 2005, we recorded a net restructuring charge of \$1.5 million in operating expenses for facility consolidations primarily in California and Texas, an impairment charge of \$5.1 million for technology licenses and equipment that will no longer be used due to our workforce reductions and a charge of \$2.9 million related to workforce reductions. We expected to realize approximately \$8.0 million to \$12.0 million in savings in annual research and development and selling, general and administrative expenses due to the related headcount reductions and facility consolidation activities. During fiscal year 2006, we did realize these expected savings as noted earlier in the research and development discussion. Further, as we continue to monitor our operating expenses, facility accruals, divestiture opportunities and space utilizations, we may record additional restructuring charges related to these items. See Note 10 in the Notes to our Consolidated Financial Statements contained in “*Item 8 – Financial Statements and Supplementary Data*” for further detail.

As of March 25, 2006, we have a remaining restructuring accrual for all of our past restructurings of \$6.5 million, primarily related to future lease payments net of anticipated subleases that will be paid over the respective lease terms through fiscal year 2013.

*License Agreement Amendment*

During the fourth quarter of fiscal year 2006, we realized a gain of \$7 million resulting from a one-time payment received associated with an amendment to an existing licensing agreement, in which certain rights to Cirrus Logic were terminated from a prior cross-license agreement. The proceeds were recorded as a separate line item on the statement of operations in operating expenses under the heading “*License agreement amendment.*”

*Litigation Settlements*

On April 28, 2005, Cirrus Logic, Fujitsu, Ltd. (“Fujitsu”), Amkor, Sumitomo, and Cirrus Logic’s insurance carriers reached an agreement through an arbitration process to settle and release all pending claims related to the alleged failure of certain semiconductor ICs sold by Cirrus Logic to Fujitsu. These releases included releases between our insurance carriers and us for any claims related to the litigation with Fujitsu. As part of the settlement, Fujitsu received \$45 million from Sumitomo, \$40 million from Amkor, and \$40 million from Cirrus Logic’s insurance carriers. Fujitsu paid us a lump sum in the amount of \$25 million. The final settlement documents were completed on June 10, 2005, and payment was received on June 16, 2005. Part of the \$25 million received from the settlement represented a recovery of bad debt expense recorded in fiscal year 2002 of approximately \$46.8 million. The \$25 million received was partially offset by approximately \$0.2 million in outside fees associated with this transaction. The net amount was recorded as a separate line item as a component of operating expenses during the first quarter of fiscal year 2006.

On August 22, 2003, we signed an agreement to settle prior litigation with Western Digital Corporation and its Malaysian subsidiary, Western Digital (M) SDN.BHD, (collectively “WD”). Under the terms of the agreement, WD made a one-time payment to us of \$45 million on October 16, 2003. We recorded the settlement as a credit to operating expense during the third quarter of fiscal year 2004 when the payment was received. Part of the \$45 million received from WD represented a recovery of bad debt expense recorded in a prior year of approximately \$26.5 million.

*Patent Agreement and Settlements, net*

During the third quarter of fiscal year 2005, we released \$0.6 million in legal fees originally accrued in connection with the transaction with Broadcom Corporation for certain U.S. and non-U.S. patents. The excess accrual was related to differences from our original estimate and the actual fees incurred related to this transaction.

On August 11, 2003, we entered into a Patent Sale, Assignment and Cross-License Agreement with NVIDIA and NVIDIA International, Inc. to settle certain pending litigation. As a result of this agreement, NVIDIA paid us \$9 million on August 11, 2003. On September 23, 2003, we entered into a Patent Sale, Assignment and Cross-License Agreement with ATI and ATI International SRL to settle certain additional pending litigation. As a result of this agreement, ATI paid us \$9 million on October 2, 2003. Under the terms of a contingency fee arrangement, we were obligated to pay outside counsel a percentage of these settlements. During the fourth quarter of fiscal year 2004, we received a net \$17 million related to a transaction with Broadcom Corporation for certain U.S. and non-U.S. patents. Both the accrual release and settlements were recorded as a separate line item on the statement of operations in operating expenses under the heading “*Patent agreement and settlements, net.*”

*Realized Gain on Marketable Securities*

In the first quarter of fiscal year 2006, we recognized a gain of \$0.4 million related to the sale of an investment in Silicon Laboratories, Inc. (“Silicon Labs”). Total proceeds from the sale were \$0.4 million. These shares were received as a result of a prior merger agreement whereby Silicon Labs acquired Cygnal Integrated Products, Inc. (“Cygnal”). This merger agreement stated that all shareholders in Cygnal, Cirrus Logic included, would receive shares of stock in Silicon Labs in exchange for their shares in Cygnal. Further, the agreement stated that, should Cygnal achieve certain revenue milestones, the former Cygnal shareholders would receive a designated amount of stock in Silicon Labs. Cygnal surpassed certain of those milestones laid out in the merger agreement and, as a result, Silicon Labs distributed certain shares of its stock held in escrow to Cirrus Logic in the first quarter of our 2006 fiscal year. Cirrus Logic sold these shares immediately upon receipt.

During fiscal year 2005, we recognized a gain of \$0.8 million related to sale of Silicon Labs stock associated with the Cygnal transaction described above. In the first quarter of fiscal year 2005, we recognized a gain of \$0.7 million on the sale of all of the Company’s stock in Silicon Labs that was received as part of the original merger agreement between Cygnal and Silicon Labs. Total proceeds from the sale were \$1.2 million. In the fourth quarter of fiscal year 2005, Cirrus Logic received additional shares in Silicon Labs as a result of the milestones discussed above. Cirrus Logic sold these shares immediately and recognized a gain of \$0.1 million.

In the fourth quarter of fiscal year 2004, we recognized a gain of \$2.0 million related to sale of investments we had in other publicly traded companies. During the second quarter of fiscal year 2004, we realized a gain of \$10.1 million related to our investment in SigmaTel, Inc. (“SigmaTel”).

*Interest Income*

Interest income in fiscal years 2006, 2005, and 2004, was \$7.5 million, \$3.2 million, and \$1.9 million, respectively. The increase in interest income in fiscal year 2006 compared to fiscal year 2005 and 2004 was primarily due to higher average cash and cash equivalent balances on which interest was earned as well as higher interest rates. This increased cash balance was the result of positive cash flow from operations, however, the receipt of various settlements during the fiscal year, such as the \$25 million received from the Fujitsu legal settlement, also contributed to the increase. See Note 7 in the Notes to our Consolidated Financial Statements contained in “*Item 8 – Financial Statements and Supplementary Data*” for additional details concerning the Fujitsu settlment.

*Income Taxes*

We recorded an income tax benefit of \$7.0 million in fiscal year 2006 on pre-tax income of \$45.4 million, yielding an effective tax benefit rate of 15.5 percent. Our effective tax rate was lower than the U.S. statutory rate of 35 percent primarily because we benefited from the realization of deferred tax assets that had been fully reserved. Our effective tax rate also reflected a nonrecurring tax benefit of \$6.7 million that was generated by the reversal of prior year non-U.S. tax liabilities due to the expiration of statutes of limitations for the years in which certain potential non-U.S. tax liabilities had existed.

We recorded an income tax benefit of \$20.8 million for fiscal year 2005 on a pre-tax loss of \$34.3 million, yielding an effective tax benefit rate of 60.6 percent. This rate differs from the U.S. statutory rate of 35 percent primarily because we were unable to benefit our fiscal year 2005 net operating loss due to the full valuation allowance we had in place on our net deferred tax assets in that year. We recorded a tax benefit of \$21.3 million, representing the reversal of prior year U.S. Federal and non-U.S. tax liabilities. These reversals were due to the expiration of statutes of limitations for the years in which certain potential U.S. and non-U.S. tax liabilities had existed. We also incurred \$0.5 million of income taxes that were due in various non-U.S. jurisdictions in which we have offices.

We recorded an income tax benefit of \$7.1 million for fiscal year 2004 on pre-tax income of \$35.8 million, yielding an effective tax benefit rate of 19.7 percent. Our effective tax rate was lower than the U.S. statutory rate of 35 percent primarily because we benefited from the realization of deferred tax assets that had been fully reserved. Our effective tax rate was also impacted by a nonrecurring tax benefit of \$7.2 million that was generated by the reversal of prior year state tax liabilities. This reversal was due to the expiration of the statute of limitations for the years in which certain potential state tax liabilities existed.

In fiscal years 2006, 2005 and 2004, we provided a valuation allowance equal to our net U.S. deferred tax assets due to uncertainties regarding whether these assets will be realized. In order to recognize these assets, we must be able to determine that it is more likely than not that these assets will be realized. We evaluate the realizability of the deferred tax assets on a quarterly basis. We have deferred tax assets generated in non-U.S. jurisdictions that we have recognized since it is more likely than not that these assets will be realized.

**Outlook**

Our outlook for fiscal year 2007 reinforces our commitment to drive to consistent operating profitability exclusive of any unusual, non-recurring events, such as litigation events. Given current indicators, we expect to maintain operating profitability, exclusive of unforeseen events, by achieving revenue growth and continued focus on reducing the cost of our operations. We remain committed to becoming a consistently profitable company, which better leverages its engineering and intellectual property resources to achieve growth.

We are focused on building a leadership position in our higher-margin audio, analog and mixed-signal product lines. We believe that worldwide adoption of digital audio products, as replacements for outdated analog components, will allow us continued growth opportunities in our audio business. Our expertise in surround-sound audio presents new opportunities beyond the traditional AVR market, as home theater-in-a-box solutions increase. In addition, we have numerous products that support digital televisions applications, low power audio applications, new automotive audio applications and have expanded our opportunities in commercial audio markets and several industrial markets, such as power meters and seismic applications.

Overall, we believe that we are well positioned to address the current economic environment, but future revenue, costs, margins, profits and profitability are all influenced by numerous factors, all of which are inherently difficult to forecast. Please refer to “Item 1A – Risk Factors Affecting Our Business and Prospects,” for additional information on these factors.

**Liquidity and Capital Resources**

During fiscal year 2006, we generated \$59.8 million in cash from operating activities. The increase in cash during fiscal year 2006 was primarily driven by our operations and the receipt of \$25 million in cash in connection with the Fujitsu litigation settlement and a decrease in our inventory of \$7.9 million. Another contributing factor to our increase in cash was a \$3.6 million increase in accounts payable and the receipt of \$7.0 million in connection with certain amendments to an existing license agreement. These increases to cash were partially offset by a \$2.3 million increase in accounts receivable and a \$1.7 million decrease in accrued salaries and benefits. During fiscal year 2005, we used \$17.1 million in cash from operating activities. The use of cash during fiscal year 2005 was primarily driven by our operations and a decrease in our accounts payable and accrued liabilities of \$16.4 million

partially offset by the decrease in inventory of \$3.0 million and accounts receivable of \$1.2 million. We also completed a property lease buyout during the second quarter of fiscal year 2005 totaling \$4.3 million for a leased property that we no longer occupied in Broomfield, Colorado, which led to a further reduction of our cash from operating activities. During fiscal year 2004, we generated \$69.6 million in cash from operating activities. The cash generated by operating activities during fiscal year 2004 was primarily related to cash received, net of expenses, upon the successful completion of three legal-related settlements totaling \$59.4 million (Western Digital Corporation, NVIDIA Corporation and ATI Technologies, Inc.) and the patent agreement with Broadcom Corporation for \$17.0 million, net. Also contributing to our cash increase during fiscal year 2004 was an increase in our accounts payable and accrued liabilities of \$13.4 million and a slight decrease in our accounts receivable balance. These sources of cash were partially offset by an increase in our inventory balances of \$7.3 million.

During fiscal year 2006, we used \$28.6 million in cash from investing activities in large part due to the purchase of \$187.6 million worth of available-for-sale securities partially offset by the sale of available-for-sale securities of \$159.4 million. In addition, we purchased \$2.9 million of equipment and technology licenses. These amounts were partially offset by a decrease in restricted cash of \$2.1 million related to a decrease in the restricted balances required by certain outstanding letters of credit. During fiscal year 2005, we used \$65.1 million in cash from investing activities. This use of cash during fiscal year 2005 is primarily due to the purchase of available-for-sale securities of \$109.4 million partially offset by the sale of available-for-sale securities of \$50.6 million. In addition to the securities, we purchased \$6.7 million of property and equipment and technology licenses, including multi-year computer-aided design tool licenses during fiscal year 2005. During fiscal year 2004, we used \$25.0 million in cash from investing activities primarily related to the purchase of marketable securities and the purchase of technology licenses, including multi-year computer-aided design tool licenses and property and equipment. These cash uses were partially offset by the sale of marketable equity securities, the sale of assets related to our manufacturing test operations and a decrease in the level of restricted investments we must maintain.

During fiscal years 2006, 2005, and 2004, we generated \$6.3 million, \$3.5 million, and \$2.3 million, respectively, in cash from financing activities related to the receipt of cash from common stock issuances as a result of the exercises of employee stock options and our employee stock purchase plan.

As of March 25, 2006, we had restricted investments of \$5.8 million, which primarily secures certain obligations under our lease agreement for our principal facility located in Austin, Texas. This facility is 197,000 square feet and houses our headquarters and engineering operations. The lease agreement for our headquarters and engineering facility includes a letter of credit in the amount of \$5.1 million until November 2011, at which point the requirement decreases to \$2.6 million with the letter of credit ceasing in May 2012.

Although we cannot assure our stockholders that we will be able to generate cash in the future, we anticipate that our existing capital resources and cash flow generated from future operations will enable us to maintain our current level of operations for at least the next 12 months.

**Quarterly Results of Operations**

The results of operations that originally appeared in our Form 10-Q’s filed for the fiscal years 2006 and 2005 have been adjusted to reflect the restatement of our quarterly financial results, which is more fully described above in the Explanatory Note in the Management’s Discussion and Analysis — Restatement of Consolidated Financial Statements and Note 1A, “Restatement of Consolidated Financial Statements,” of the Notes to Consolidated Financial Statements of this Form 10-K/A. For a detailed reconciliation of previously reported quarterly results of operations to the restated quarterly results of operations below, please see Note 16, “Quarterly Financial Information,” of the Notes to Consolidated Financial Statements of this Form 10-K/A.

Quarterly Results of Operations (in thousands, except per share data, unaudited)

	Three Months Ended			
	March 25, 2006	December 24, 2005	September 24, 2005	June 25, 2005
	Restated	Restated	Restated	Restated
Net sales	\$ 42,158	\$ 48,253	\$ 50,461	\$ 52,822
Cost of sales	17,683	21,688	23,608	25,523
Gross Margin	\$ 24,475	\$ 26,565	\$ 26,853	\$ 27,299
Research and development	10,570	10,500	11,024	13,678
Selling, general and administrative	9,731	10,829	16,369	14,342
Restructuring and other, net	-	-	2,311	-
Litigation settlement, net	-	-	-	(24,758)
License Agreement	(7,000)	-	-	-
Total operating expenses	\$ 13,301	\$ 21,329	\$ 29,704	\$ 3,262
Income (loss) from operations	\$ 11,174	\$ 5,236	\$ (2,851)	\$ 24,037
Realized gain on marketable securities	-	-	-	388
Interest income, net	2,510	2,131	1,684	1,136
Other income (expense), net	21	53	(109)	(19)
Income (loss) before income taxes	\$ 13,705	\$ 7,420	\$ (1,276)	\$ 25,542
Benefit for income taxes	(1,241)	(5,261)	(167)	(366)
Net income (loss)	\$ 14,946	\$ 12,681	\$ (1,109)	\$ 25,908
Earnings per share:				
Basic	\$ 0.17	\$ 0.15	\$ (0.01)	\$ 0.30
Diluted	\$ 0.17	\$ 0.14	\$ (0.01)	\$ 0.30
Weighted Average Common Shares Outstanding:				
Basic	86,718	86,399	85,804	85,230
Diluted	88,924	88,101	85,804	86,183

Quarterly Results of Operations (in thousands, except per share data, unaudited)

	Three Months Ended			
	March 26, 2005	December 25, 2004	September 25, 2004	June 26, 2004
	Restated	Restated	Restated	Restated
Net sales	\$ 40,415	\$ 44,036	\$ 51,332	\$ 59,117
Cost of sales	18,953	26,841	28,405	27,439
Gross Margin	\$ 21,462	\$ 17,195	\$ 22,927	\$ 31,678
Research and development	18,220	19,144	21,241	21,944
Selling, general and administrative	7,050	9,988	13,206	12,215
Restructuring and other, net	485	3,107	4,148	1,723
Patent agreement, net	-	(593)	-	-
Total operating expenses	\$ 25,755	\$ 31,646	\$ 38,595	\$ 35,882
Income (loss) from operations	\$ (4,293)	\$ (14,451)	\$ (15,668)	\$ (4,204)
Realized gain on marketable securities	137	-	-	669
Interest income, net	962	946	604	696
Other income (expense), net	116	272	(5)	(66)
Income (loss) before income taxes	\$ (3,078)	\$ (13,233)	\$ (15,069)	\$ (2,905)
Benefit for income taxes	(5,745)	(15,134)	66	24
Net income (loss)	\$ 2,667	\$ 1,901	\$ (15,135)	\$ (2,929)
Earnings per share:				
Basic	\$ 0.03	\$ 0.02	\$ (0.18)	\$ (0.03)
Diluted	\$ 0.03	\$ 0.02	\$ (0.18)	\$ (0.03)
Weighted Average Common Shares Outstanding:				
Basic	85,124	84,773	84,671	84,419
Diluted	86,151	86,159	84,671	84,419

**Three month period ended June 25, 2005 (restated) compared to June 26, 2004 (restated)**

*Net Sales*

Net sales for the first quarter of fiscal year 2006 decreased \$6.3 million to \$52.8 million from \$59.1 million from the first quarter of fiscal year 2005. Net sales from Mixed-Signal products declined \$5.8 million, or 20%, due primarily to a decrease in demand for certain older generation products, coupled with an unusually robust inventory build by our end customers of DVD players for last year’s holiday season. The embedded product net sales decreased \$1.1 million, or 8%, during the first quarter of fiscal year 2006 from the comparable quarter of the prior fiscal year due to slower demand for certain products, primarily including legacy DSPs. Net sales from our Industrial products were down \$1.5 million, or 16%, in the first quarter of fiscal year 2006 due to a small decrease in power meter demand. These decreases were partially offset by an increase of \$2.1 million, 31%, in net sales of our Video products during the first quarter of fiscal year 2006 from the prior comparable period. The increase in our video products was primarily attributable to increased demand for certain DVD encoder and decoder products. On June 30, 2005, we sold our digital video product assets to Magnum Semiconductor.

Export sales, principally to Asia, including sales to U.S.-based customers with manufacturing plants overseas, were 71 percent and 70 percent of net sales during the first quarter of fiscal years 2006 and 2005, respectively.

Our sales are denominated primarily in U.S. dollars. As a result, we have not entered into foreign currency forward exchange and option contracts.

During the first quarter of fiscal year 2006, a distributor, Memec Group Holdings Limited and a direct customer, LG Electronics, represented 22 percent and 11 percent of net sales, respectively. During the first quarter of fiscal year 2005, two of our distributors, Memec Group Holdings Limited and Honestar, accounted for 25 percent and 10 percent of net sales, respectively.

*Gross Margin*

Gross margin was 51.7 percent in the first quarter of fiscal year 2006, down from 53.6 percent in the first quarter of fiscal year 2005. The largest driver of the decrease in gross margin is a result of product mix. Our lower margin video sales increased at a higher rate than our industrial revenue products, which were down from the comparable prior quarter due to decreased demand for a particular product. Partially offsetting these decreases, during the first quarter of fiscal year 2006, the sale of products that had been written down in prior periods contributed approximately \$1.7 million, or 3.3 percent of gross margin as compared to a 2.1 percentage contribution in the first quarter of fiscal year 2005.

*Research and Development Expense*

Research and development expense for the first quarter of fiscal year 2006 of \$13.7 million decreased \$8.2 million from \$21.9 million in the first quarter of fiscal year 2005. This included \$0.1 million of restated stock compensation expense calculated under *Accounting Principles Board Opinion No. 25* (“APB 25”), *Accounting for Stock Issued to Employees* for the first quarter of 2005. The overall decrease is primarily due to reduced salaries and benefits costs as our headcount was reduced from the prior fiscal year coupled with lower outside product development expenses and reduced amortization of acquired intangibles during the first quarter of fiscal year 2006.

*Selling, General and Administrative Expense*

Selling, general and administrative expense in the first quarter of fiscal year 2006 of \$14.3 million increased by \$2.1 million from \$12.2 million in the first quarter of fiscal year 2005. This included a \$0.3 million credit due to the expiration of the statute of limitations on certain payroll taxes related to stock based compensation. The overall increase is due primarily to the charge taken to facilities expense for a loss contingency on sub-leases entered into during the quarter, as we sub-leased the excess space for less than our current rent obligations on this leased space.

*Restructuring and Other Costs*

During the first quarter of fiscal year 2005, we recorded a charge of \$1.6 million in operating expenses for the remainder of the facility consolidation activities that were completed during the quarter related to our Colorado offices for the headcount reductions that began in the fourth quarter of fiscal year 2004. We expect to sublease this

facility in the future and have made assumptions to that affect. Should these sublease assumptions change, we may have to revise our assumptions and record additional restructuring charges for this facility. Additionally, we recorded an impairment charge of \$0.1 million for property and equipment associated with our Pune, India facility closure in the first quarter of fiscal year 2005.

*Realized Gain on Marketable Equity Securities*

During the first quarter of fiscal years 2006 and 2005, we realized gains of \$0.4 million and \$0.7 million, respectively, related to the sale of Silicon Laboratories, Inc. common stock. We received the common stock in connection with Silicon Laboratories’ acquisition of Cygnal Integrated Products, Inc., a company in which we had an investment. We received \$0.4 million and \$1.2 million, net of commissions in the first quarters of fiscal years 2006 and 2005, respectively, for the sale of these securities.

*Interest Income*

Interest income was \$1.1 million for the first quarter of fiscal year 2006 and \$0.7 million for the first quarter of fiscal year 2005. The increase of \$0.4 million was primarily due to increased cash and cash equivalent balances on which interest is earned coupled with higher interest rates on our investment portfolio.

*Income Taxes*

We realized a net income tax benefit of \$366 thousand for the first quarter of fiscal year 2006, compared with income tax expense of \$24 thousand for the comparable period of fiscal year 2005. The benefit stems primarily from the expiration of the statute of limitations for years in which certain potential foreign income tax liabilities for transfer pricing issues had existed. Our tax expense for the first quarter of fiscal year 2006 was less than the Federal statutory rate, as we were able to utilize a portion of our deferred tax asset on which there had been placed a full valuation allowance. The income tax expense for fiscal year 2005 consisted primarily of foreign withholding taxes and foreign income taxes.

In fiscal years 2006 and 2005, we provided a valuation allowance equal to our net deferred tax assets due to uncertainties regarding their realization. We evaluate the realizability of our deferred tax assets on a quarterly basis.

**Three month period ended September 24, 2005 (restated) compared to September 25, 2004 (restated)**

*Net Sales*

Net sales for the second quarter of fiscal year 2006 decreased \$0.8 million to \$50.5 million from \$51.3 million from the second quarter of fiscal year 2005. Net sales from mixed-signal audio products increased \$2.3 million, or 10 percent, due primarily to an increase in demand for our audio analog to digital converters, as production ramped for a new product introduced within the last year. The embedded product net sales increased \$2.1 million, or 18 percent, during the second quarter of fiscal year 2006 from the comparable quarter of the prior fiscal year due to higher sales related to our CobraNet™ technology and a product that has ramped in the last year. Net sales from our Industrial products were down \$3.2 million, or 28 percent, in the second quarter of fiscal year 2006 due to a decrease in demand for seismic products as our customers ramped up on our longer product life components during fiscal year 2005 that did not reoccur in fiscal year 2006. Further, as we exit our video product line, we saw a decrease in sales of \$2.2 million, or 50 percent, as we exited this product line. On June 30, 2005, we sold our digital video product assets to Magnum Semiconductor.

Net sales for the first six months of fiscal year 2006 decreased \$7.1 million to \$103.3 million from \$110.4 million from the first six months of fiscal year 2005. The embedded product net sales increased \$1.0 million, or 4 percent, during the first six months of fiscal year 2006 from the comparable period of the prior fiscal year due to higher sales related to our CobraNet technology, a product that has ramped in the last year. Conversely, net sales from mixed-signal audio products decreased \$3.5 million, or 7 percent, due primarily to a stabilization of market demand for our audio digital to analog converters. We also saw a decrease in our net sales from our Industrial products by \$4.7 million, or 23 percent, in the first six months of fiscal year 2006 due to a decrease in demand for seismic products as our customers ramped up on our longer product life components during fiscal year 2005 that did not reoccur in fiscal year 2006. Our video product line, which we exited this fiscal year, saw virtually no change from the first six months, as both years revenue was \$11.3 million.

Export sales, principally to Asia, including sales to U.S.-based customers with manufacturing plants overseas, were 65 percent and 63 percent of net sales during the second quarter of fiscal years 2006 and 2005, respectively. Export sales were 68 percent and 67 percent of total sales in the first six months of fiscal years 2006 and 2005,



respectively. Our sales are denominated primarily in U.S. dollars. As a result, we have not entered into foreign currency forward exchange and option contracts.

We had no direct customers that accounted for more than 10 percent of our sales. We had one distributor that represented 25 percent and 24 percent of our sales for the second quarter and first six months of fiscal year 2006, respectively. The same distributor represented 30 percent and 27 percent of our sales for the second quarter and first six months of fiscal year 2005, respectively. Sales to our distributors represented 65 percent and 63 percent of our fiscal year 2006 and 2005 net sales, respectively.

*Gross Margin*

Gross margin was 53.2 percent in the second quarter of fiscal year 2006, up from 44.7 percent in the second quarter of fiscal year 2005. During the second quarter of fiscal year 2006, we realized a net benefit of \$0.3 million from the sale of previously written down inventory, which favorably impacted gross margins by 0.7 percent. Our gross margins in the second quarter of fiscal year 2005 were largely impacted by a charge of \$3.9 million, a 7.6 percent impact to gross margin, to write down gross inventory to an estimation of net realizable value.

Gross margin was 52.4 percent in the first six months of fiscal year 2006, up from 49.4 percent in the comparable period of fiscal year 2005. The largest driver of the increase in gross margin was the absence of the inventory charges to write down gross inventory by \$3.9 million during the second quarter of fiscal year 2006.

*Research and Development Expense*

Research and development expense for the second quarter of fiscal year 2006 of \$11.0 million decreased \$10.2 million from \$21.2 million in the second quarter of fiscal year 2005. This included \$0.4 million and \$0.1 million of restated stock compensation expense calculated under APB 25 for the second quarter of fiscal year 2006 and 2005, respectively. The overall decrease was primarily due to reduced salaries and benefits costs as our headcount was reduced from the prior year as we exited from the video product line coupled with lower outside product development expenses and reduced amortization of acquired intangibles during the second quarter of fiscal year 2006.

Research and development expense for the first six months of fiscal year 2006 of \$24.7 million decreased \$18.5 million from \$43.2 million in the comparable period of fiscal year 2005. This included \$0.4 million and \$0.3 million of restated stock compensation expense calculated under APB 25 for the first six months of fiscal year 2006 and 2005, respectively. The overall decrease was primarily due to reduced salaries and benefits costs as our headcount was reduced from the prior year as we exited from the video product line coupled with lower outside product development expenses and the absence of \$6.8 million in amortization of acquired intangibles, most of which were sold to Magnum Semiconductor.

*Selling, General and Administrative Expense*

Selling, general and administrative expense in the second quarter of fiscal year 2006 of \$16.4 million increased by \$3.2 million from \$13.2 million in the second quarter of fiscal year 2005. This included \$0.6 million of restated stock compensation expense calculated under APB 25 for the second quarter of fiscal year 2006. The overall increase was due primarily to the additional charge taken to facilities expense for a loss contingency on sub-leases entered into during the previous quarter, as we sub-leased excess space for less than our current rent obligations, partially offset by reduced expenses associated with our exit from the video product line.

Selling, general and administrative expense in the first six months of fiscal year 2006 of \$30.7 million increased by \$5.3 million from \$25.4 million in the comparable period of fiscal year 2005. This included \$0.6 million of restated stock compensation expense calculated under APB 25 for the first six months of fiscal year 2006 and a \$0.2 million credit for the first six months of fiscal year 2005 associated with the expiration of the statute of limitations on certain share based compensation related payroll taxes. The overall increase was due primarily to the \$4.4 million charge taken to facilities expense for a loss contingency on sub-leases entered into during the fiscal year, as we sub-leased excess space for less than our current rent obligations coupled with costs to sell the video product line. These charges were partially offset by reduced employee related expenses associated with our exit from the video product line.

*Restructuring and Other, Net*

During the second quarter and first six months of fiscal year 2006, we recorded a restructuring charge of \$3.1 million in operating expenses for severance and facility related items associated with our workforce reductions

related to the divestiture of the video product line. Partially offsetting this charge was approximately \$0.8 million related to a gain that was recognized in the second fiscal quarter for the sale of the video product line assets to Magnum Semiconductor.

During the second quarter of fiscal year 2005, we recorded a charge of \$4.6 million in operating expenses for severance activity during the quarter and for an abandonment of computer aided design (“CAD”) software tools that will not be used due to our workforce reductions. This charge was partially offset by a \$0.5 million favorable outcome related to a long-term lease buyout during the quarter. In addition to the transactions recorded during the second quarter of fiscal year 2005, as mentioned above, during the first quarter of fiscal year 2005, we recorded a charge of \$1.6 million for the remainder of the facility consolidation activities related to our workforce reduction that began in the fourth quarter of fiscal year 2004. Additionally, we recorded an impairment charge of \$0.1 million for property and equipment associated with our Pune, India facility closure.

*Realized Gain on Marketable Equity Securities*

During the first quarter of fiscal years 2006 and 2005, we realized gains of \$0.4 million and \$0.7 million, respectively, related to the sale of Silicon Laboratories, Inc. common stock. We received the common stock in connection with Silicon Laboratories’ acquisition of Cygnal Integrated Products, Inc., a company in which we had an investment. We received \$0.4 million and \$1.2 million, net of commissions in the first quarters of fiscal years 2006 and 2005, respectively, for the sale of these securities.

*Interest Income*

Interest income was \$1.7 million and \$0.6 million for the second quarter of fiscal years 2006 and 2005, respectively. Interest income was \$2.8 million and \$1.3 million for the first six months of fiscal years 2006 and 2005, respectively. The increases of \$1.1 million and \$1.5 million, respectively, was primarily due to increased cash and cash equivalent balances on which interest was earned coupled with higher rates of return on our investment portfolio.

*Income Taxes*

We realized a net income tax benefit of \$167 thousand for the second quarter of fiscal year 2006 and \$533 thousand for the first six months of fiscal year 2006. The benefit for both periods stems primarily from the expiration of the statute of limitations for years in which certain foreign income tax exposures for transfer pricing issues had existed. Our tax expense for the first six months of fiscal year 2006 was less than the Federal statutory rate, as we were able to utilize a portion of our deferred tax asset on which there had been placed a full valuation allowance. We incurred income tax expense of \$66 thousand for the second quarter of fiscal year 2005 and \$90 thousand the first six months of fiscal year 2005. The income tax expense for both of those periods consisted primarily of foreign withholding and foreign income taxes.

In fiscal years 2006 and 2005, we provided a valuation allowance equal to our net deferred tax assets due to uncertainties regarding their realization. We evaluate the realizability of our deferred tax assets on a quarterly basis.

**Three month period ended December 24, 2005 (restated) compared to December 25, 2004 (restated)**

*Net Sales*

Net sales for the third quarter of fiscal year 2006 increased \$4.3 million to \$48.3 million from \$44.0 million from the third quarter of fiscal year 2005. Net sales from mixed-signal audio products increased \$3.6 million, or 16 percent, due primarily to an increase in demand for our audio analog-to-digital converters as we began volume production for new products introduced in the last few years. Net sales for embedded products increased \$2.8 million, or 26 percent, in the third quarter of fiscal year 2006 from the comparable quarter of the prior fiscal year primarily due to higher demand for our communications products. Net sales from our Industrial products were up slightly by \$0.9 million, or 12 percent, in the third quarter of fiscal year 2006 due to an increase in demand for our power meter and successive-approximation register (“SAR”) analog-to-digital converters (“ADC”). These increases were offset by the decrease in our video product line of \$3.1 million, or 100 percent, as we sold this product line.

Net sales for the first nine months of fiscal year 2006 decreased \$3.0 million, or 2 percent, to \$151.5 million from \$154.5 million from the first nine months of fiscal year 2005. The largest component of this decrease was the video product line revenue in the prior fiscal year of \$3.1 million. The embedded product net sales increased \$3.9 million, or 11 percent, during the first nine months of fiscal year 2006 from the comparable period of the prior fiscal year due to higher sales related to our communications products as well as our CobraNet technology. Net sales

from mixed-signal audio products remained relatively flat on a year over year comparison while our Industrial products decreased \$3.8 million, or 13 percent, in fiscal year 2006 primarily due to a decrease in demand for seismic products.

Export sales, principally to Asia, including sales to U.S.-based customers with manufacturing plants overseas, were 63 percent and 65 percent of net sales during the third quarter of fiscal years 2006 and 2005, respectively. Export sales were 64 percent and 66 percent of total sales in the first nine months of fiscal years 2006 and 2005, respectively. Our sales are denominated primarily in U.S. dollars. As a result, we have not entered into foreign currency forward exchange and option contracts.

We had no direct customers that accounted for more than 10 percent of our sales during fiscal year 2006 or fiscal year 2005. We had one distributor that represented 26 percent and 24 percent of our sales for the third quarter and first nine months of fiscal year 2006, respectively. The same distributor represented 26 percent and 27 percent of our sales for the third quarter and first nine months of fiscal year 2005, respectively. Sales to our distributors represented 71 percent and 58 percent of third quarter fiscal year 2006 and 2005 net sales, respectively. During the first nine months of fiscal years 2006 and 2005, sales to our distributors represented 65 percent and 62 percent of net sales, respectively.

*Gross Margin*

Gross margin was 55.1 percent in the third quarter of fiscal year 2006, up from 39.0 percent in the third quarter of fiscal year 2005. During the third quarter of fiscal year 2006, we realized a net benefit of \$0.9 million from the sale of previously written down inventory, which favorably impacted gross margins by 3.3 percent. In contrast, our gross margins in the third quarter of fiscal year 2005 were negatively impacted by a net charge of \$5.0 million, or 10.8 percent, relating to the write down of gross inventory to net realizable value, primarily for our video product line inventory.

Gross margin was 53.3 percent in the first nine months of fiscal year 2006, up from 46.5 percent in the comparable period of fiscal year 2005. A significant driver for the increase in gross margins was the reduction of inventory write downs in fiscal year 2006. During fiscal year 2006, we sold \$2.9 million of previously written down inventory whereas in fiscal year 2005 we took a charge of \$8.9 million, mainly for our video product line inventory. In addition, changes to the sales volumes for higher margin products coupled with continued cost improvements also contributed to improved gross margins during this time-period.

*Research and Development Expense*

Research and development expense for the third quarter of fiscal year 2006 of \$10.5 million decreased \$8.6 million from \$19.1 million in the third quarter of fiscal year 2005. This included \$0.1 million and \$0.3 million of restated stock compensation expense calculated under APB 25 for the third quarter of fiscal years 2006 and 2005, respectively. The overall decrease was primarily due to reduced salaries and benefits costs as our headcount was reduced from the prior year as we sold the video product line assets, coupled with lower outside product development expenses, and reduced amortization of acquired intangibles during the third quarter of fiscal year 2006.

Research and development expense for the first nine months of fiscal year 2006 of \$35.2 million decreased \$27.1 million from \$62.3 million in the comparable period of fiscal year 2005. This included \$0.5 million of restated stock compensation expense calculated under APB 25 for the first nine months of, both, fiscal year 2006 and 2005. The overall decrease was primarily due to reduced salaries and benefits costs as our headcount was reduced from the prior year as we sold the video product line assets, coupled with lower outside product development expenses, and the absence of \$9.6 million in amortization of acquired intangibles, most of which were sold to Magnum Semiconductor.

*Selling, General and Administrative Expense*

Selling, general and administrative expense increased by \$0.8 million from \$10.0 million in the third quarter of fiscal year 2005 to \$10.8 million in the third quarter of fiscal year 2006. This included \$0.1 million and \$0.4 million of restated stock compensation expense calculated under APB 25 for the third quarter of fiscal years 2006 and 2005, respectively. The overall increase was primarily due to the net difference between a \$2.3 million goods and services tax benefit taken in the third quarter of fiscal year 2005, and the \$0.8 million sales and use tax benefit taken in the third quarter of fiscal year 2006, both of which were related to the resolution of tax audits. In addition, during the third quarter of fiscal year 2006, we recorded a charge of \$0.2 million for a litigation settlement with our landlord. Excluding the tax benefits and the litigation settlement, selling, general and administrative expenses would have

decreased from the third quarter of fiscal year 2005 to fiscal year 2006 due to decreased salary and benefit costs as we sold the video product line assets during the current fiscal year.

Selling, general and administrative expense in the first nine months of fiscal year 2006 was \$41.5 million, an increase of \$6.1 million from the \$35.4 million recognized in the comparable period of fiscal year 2005. This included \$0.7 million and \$0.1 million of restated stock compensation expense calculated under APB 25 for the first nine months of fiscal years 2006 and 2005, respectively. The overall increase was primarily due to the \$4.4 million charge taken to facilities expense for a loss contingency on sub-leases entered into during the fiscal year, as we sub-leased excess space for less than our current rent obligations, coupled with costs associated with the sale of the assets from our video product line. These charges were partially offset by reduced employee related expenses associated with our sale of the video product line assets.

*Restructuring and Other, Net*

During the first nine months of fiscal year 2006, we recorded a net restructuring charge of \$3.1 million in operating expenses for severance and facility related items associated with our workforce reductions related to the sale of the video product line assets. Partially offsetting this charge was approximately \$0.8 million related to a gain that was recognized in the second fiscal quarter for the sale of the video product line assets to Magnum Semiconductor.

During the third quarter of fiscal year 2005, we recorded total restructuring and other charges of \$3.1 million for severance expenses related to a workforce reduction plan initiated in December 2004 and for abandoned software and Computer Aided Design (“CAD”) software tools that will not be used due to our workforce reductions.

For the first nine months of fiscal year 2005, total restructuring and other costs were \$9.0 million. In addition to the amounts recorded during the third quarter of 2005, we recorded \$4.6 million worth of restructuring and other charges during the second quarter of fiscal year 2005 for severance activity related to a workforce reduction plan initiated in August 2004 and for an abandonment of Computer Aided Design (“CAD”) software tools that will not be used due to the workforce reductions. This restructuring charge was partially offset by a \$0.5 million favorable outcome related to a long-term lease buyout. Additionally, during the first quarter of fiscal year 2005, we recorded restructuring charges of \$1.6 million for facility consolidations, and an impairment charge of \$0.1 million related to property and equipment associated with our Pune, India facility closure.

*Litigation Settlement*

During the second fiscal quarter of fiscal year 2006, we settled our outstanding litigation with Fujitsu and received a net \$24.8 million from this settlement.

*Patent Agreement and Settlements, Net*

During the third quarter and first nine months of fiscal year 2005, we released \$0.6 million in accrued legal fees originally accrued during the second quarter fiscal year 2004, in connection with the sale of certain patents.

*Realized Gain on Marketable Equity Securities*

During the first quarter of fiscal years 2006 and 2005, we realized gains of \$0.4 million and \$0.7 million, respectively, related to the sale of Silicon Laboratories, Inc. common stock. We received the common stock in connection with Silicon Laboratories’ acquisition of Cygnal Integrated Products, Inc., a company in which we had an investment. We received \$0.4 million and \$1.2 million, net of commissions in the first quarters of fiscal years 2006 and 2005, respectively, for the sale of these securities.

*Interest Income*

Interest income was \$2.1 million and \$0.9 million for the third quarter of fiscal years 2006 and 2005, respectively. Interest income was \$5.0 million and \$2.2 million for the first nine months of fiscal years 2006 and 2005, respectively. The increases of \$1.2 million and \$2.8 million, respectively, were primarily due to increased cash and cash equivalent balances on which interest was earned, coupled with higher interest rates.

Income Taxes

We realized a net income tax benefit of \$5.3 million for the third quarter of fiscal year 2006 and \$5.8 million for the first nine months of fiscal year 2006. The benefit for both periods results primarily from the expiration of the statute of limitations for years in which certain foreign income tax exposures for transfer pricing issues had existed.

Our tax expense for the first nine months of fiscal year 2006 was less than the Federal statutory rate, as we were able to utilize a portion of our deferred tax asset on which there had been placed a full valuation allowance.

We realized a net income tax benefit of \$15.1 million during the third quarter of fiscal year 2005 and \$15.0 million for the first nine months of fiscal year 2005. This net benefit for fiscal year 2005 was comprised of an income tax benefit of \$15.2 million resulting from the December 2004 expiration of the statute of limitations for the years in which certain U.S. federal tax exposures had existed. The income tax benefit was partially offset by \$0.1 million of income tax expense consisting primarily of foreign income taxes.

In fiscal years 2006 and 2005, our valuation allowance equals our net deferred tax assets due to uncertainties regarding their realization. We evaluate the realizability of our deferred tax assets on a quarterly basis.

Off-Balance Sheet Arrangements

In our business activities, we incur certain commitments to make future payments under contracts such as purchase orders, leases and other long-term contracts. Maturities under these contracts are set forth in the following table as of March 25, 2006:

	Payment due by period (in thousands)				
	< 1 year	1–3 years	3–5 years	> 5 years	Total
Facilities leases, net	\$ 6,118	\$ 13,464	\$ 8,218	\$ 5,510	\$ 33,310
Equipment leases	38	15	4	–	57
Wafer purchase commitments	6,329	–	–	–	6,329
Assembly purchase commitments	485	–	–	–	485
Outside test purchase commitments	4,222	4,125	–	–	8,347
Development board purchase commitments	462	–	–	–	462
Other purchase commitments	109	–	–	–	109
Total	<u>\$17,763</u>	<u>\$ 17,604</u>	<u>\$ 8,222</u>	<u>\$ 5,510</u>	<u>\$ 49,099</u>

Recently Issued Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123(R) “Share-Based Payment” which supersedes Accounting Principle Board Opinion (APB) No. 25, “Accounting for Stock Issued to Employees,” SFAS No. 123, “Accounting for Stock Based Compensation,” and related implementation guidance. Under this pronouncement, stock based compensation to employees is required to be recognized as a charge to the statement of operations and such charge is to be measured according to the fair value of the stock options. In the absence of an observable market price for the stock awards, the fair value of the stock options would be based upon a valuation methodology that takes into consideration various factors, including the exercise price of the option, the expected term of the option, the current price of the underlying shares, the volatility of the company’s stock and the risk free interest rate. For fiscal year 2006, our policy was not to expense the fair value of share based compensation but rather the intrinsic value under APB 25; however, we do disclose the affect of this item as currently required by SFAS No. 123. Beginning with fiscal year 2007, we will expense shared based compensation in accordance with the provisions of SFAS No. 123(R). SFAS No. 123(R) allows for either prospective recognition of compensation expense or retrospective recognition, which may be back to the original issuance of SFAS No. 123 or only to interim periods in the year of adoption. The company has chosen to adopt the standard using the modified prospective approach. This pronouncement is effective for fiscal years beginning after June 15, 2005. For Cirrus Logic, we adopted this pronouncement with the beginning of our fiscal year 2007, which began on March 26, 2006.

In December 2005, the FASB released FASB Staff Position (FSP) SFAS No. 123(R)-3, “Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards,” which provides a practical transition

election related to accounting for the tax effects of share-based payment awards to employees. The Company is currently reviewing the transition alternatives for this FSP and will elect the appropriate alternative within one year of the adoption of SFAS No. 123(R).

**Critical Accounting Policies**

Our discussion and analysis of the Company’s financial condition and results of operations are based upon the consolidated financial statements included in this report, which have been prepared in accordance with U. S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts. We evaluate the estimates on an on-going basis. We base these estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions. We also have policies that we consider to be key accounting policies, such as our policies for revenue recognition, including the deferral of revenues and cost of sales on sales to our distributors; however, these policies do not meet the definition of critical accounting estimates because they do not generally require us to make estimates or judgments that are difficult or subjective.

We believe the following critical accounting policies involve significant judgments and estimates that are used in the preparation of the consolidated financial statements:

*Share-based Compensation*

As discussed in the Explanatory Note, the measurement dates used for financial accounting purposes for certain stock option and restricted stock grants to executive officers and other employees differed from the dates the grants were approved by the appropriate Board committee in a number of instances such that the price on the approval date was higher than the price on the original measurement dates used by the Company for financial accounting purposes. We concluded that the most appropriate measurement date for new hire and other promotion and retention option grants that were generally made the first Wednesday of each month through the use of unanimous written consents (“UWCs”) of the Company’s Compensation Committee were the date of the receipt of all the signed UWCs authorizing those grants. We also concluded that the most appropriate measurement date for other off-cycle and broad-based annual option grants that were granted through Board or Compensation Committee resolutions was on the date when, both, the Board or Compensation Committee approval had been received and the list of option award recipients had been finalized.

To correct the inaccuracies, the Company re-determined the measurement date based on the date the above criteria were satisfied. In re-determining the most appropriate measurement date of an option grant, we considered meeting minutes and other documents of our Board of Directors, including minutes of the Compensation Committee, in addition to the following data:

- UWCs with fax headings showing the dates on which the UWCs were faxed;
- Stock administration’s written consent checklists;
- The date on which such grants were entered into the outsourced, third party stock option system;
- Reports on Form 4 filed with the Commission;
- Contemporaneous emails;
- Personnel files;
- Payroll records;
- Information obtained in interviews with various current and former Company employees and Board of Directors members; and
- Various records maintained by our Human Resources department.

For grants where there was not sufficient evidence and documentation available to support the original measurement date or to determine the precise date when the number of options and exercise price were finalized, we used all available relevant information to form a reasonable conclusion as to the most appropriate measurement date for such option grants. We made certain legal interpretations under California or Texas law regarding, among other things, whether the Company, has a reasonable basis to conclude that it will be able to issue stock upon a proper exercise of outstanding unexercised stock options.

Based on the above evidence, the Company established the most appropriate measurement dates and recalculated share based compensation expense. As a result, the Company has recognized \$32.4 million in additional share-based compensation expense arising from stock grants to executive officers and employees. Of this amount, approximately \$9.3 million related to options granted to executive officers who, at the time of the grant, were subject to the reporting requirements under Section 16 of the Exchange Act of 1934.

In an effort to avoid future errors of the type that led to this restatement, the company has improved and strengthened our procedures and processes related to our stock option program through the addition of the following controls designed to provide to provide appropriate safeguards and greater internal control over the stock option granting and administrative function as follows:

The stock option granting procedures have been formalized, documented and approved by the Compensation Committee and the Board;

- Using a checklist, the Company’s Stock Administrator tracks each step of the Monthly Consent Process to ensure all items in the process are completed and all necessary records are properly maintained.
- Approximately two weeks before the Monthly Grant Date, the Stock Administrator creates the proposed grant list. The list is populated from Personnel Action Notices (“PANs”) received from Human Resources (“HR”) and Special Stock Option Grant Requests (“SSOGRs”) are approved via the SSOGR application in SAP. All requests for grants outside the Company’s grant guidelines include a “Request for Exception to Guidelines” form that includes the reasons for the proposed grant outside the Company’s grant guidelines. The “vesting start date” for all proposed grants is set as the Monthly Grant Date.
- The Stock Administrator sends the proposed grant list to HR to confirm:
  - o the list is complete and correct;
  - o special exception forms have been obtained for any grants that fall outside guidelines; and
  - o there are no open negotiations with any proposed recipients relating to any of the proposed grants.
- The Stock Administrator updates the information contained in the “Equity Incentive Awards Year-to-Date Status for Fiscal Year” report, which is provided to the Compensation Committee members on a monthly basis.
- Approximately ten days prior to the Monthly Grant Date, the Stock Administrator emails a proposed written consent and associated exhibits to the members of the Compensation Committee.
- Upon receiving consent for the grants from a member of the Compensation Committee, the Stock Administrator records the date the consent is received on the checklist. A Committee member may approve the proposed UWC by signing and returning the UWC to the Stock Administrator, or alternatively, by sending an electronic message (e.g., email) to the Stock Administrator indicating the Committee member’s approval.
- If the Stock Administrator has not received the UWC from all members of the Compensation Committee at least three days before the Monthly Grant Date, the Stock Administrator will re-send the request for approvals and another copy of the UWC. In addition, the Corporate Secretary of the Company will provide the proper required notice of a Compensation Meeting to be held on or before the Monthly Grant. The purpose of the meeting will be to review the proposed option grants previously delivered to the Committee.
- After Compensation Committee approval has been received, the Stock Administrator informs HR that the proposed grants have been approved. HR notifies the recipient of the approved grants by email on or prior to the Monthly Grant Date.
- If the proposed grants have not been approved by the Compensation Committee before the Monthly Grant Date, then the Company will not grant or price any awards for that month. All proposed grants may be included for approval in the following month’s grant list and must be approved again pursuant to these procedures.
- If the Compensation Committee has approved the grants but employees are not notified of the approvals on or before the Monthly Grant Date, then HR contacts the General Counsel prior to providing any such notice. The General Counsel determines whether to proceed with notifying employees of the approved grants or require the grants be approved again pursuant to these procedures.
- The Stock Administrator prepares a list of the approved grants and transmit the list to the Company’s Third-Party Stock Plan Administrator.
- The Stock Administrator maintains the appropriate records with the Company’s corporate minute books and records.

- The Stock Administrator maintains a cumulative summary document that provides a summary of all equity incentive grants issued by the Company for the current fiscal year.
  - After notifying the Company’s Third Party Stock Plan Administrator of the awards, the Stock Administrator runs a report for the Monthly Grant Date from the Third Party Stock Plan Administrator’s database to confirm that all grants sent to them have been entered in their database under the correct employee names and identification numbers.
  - Any material deviation from these procedures must be approved by the Company’s General Counsel. The Stock Administrator notifies the Company’s Chief Financial Officer and the General Counsel of any material deviation from these procedures that is not approved in advance by the General Counsel.
- For purposes of determining the variables used in the calculation of stock compensation expense under the provisions of the *Financial Accounting Standards Board’s (“FASB”) Statement of Financial Accounting Standards No. 123 (R) (“SFAS No. 123(R)”)*, we perform an analysis of current market data and historical company data to calculate an estimate of implied volatility, the expected term of the option and the expected forfeiture rate. With the exception of the expected forfeiture rate, which is not an input, we use these estimates as variables in the Black-Scholes option pricing model. Depending upon the number of stock options granted, any fluctuations in these calculations could have a material effect on the results presented in our Consolidated Statement of Operations. In addition, any differences between estimated forfeitures and actual forfeitures could also have a material impact on our financial statements. See Note 1A in the Notes to our Consolidated Financials Statements contained in *“Item 8 – Financial Statements.”*
  - We maintain allowances for doubtful accounts for estimated losses resulting from the inability or failure of our customers to make required payments. We regularly evaluate our allowance for doubtful accounts based upon the age of the receivable, our ongoing customer relations, as well as any disputes with the customer. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required, which could have a material effect on our operating results and financial position. Additionally, we may maintain an allowance for doubtful accounts for estimated losses on receivables from customers with whom we are involved in litigation. See Note 3 in the Notes to our Consolidated Financial Statements contained in *“Item 8 – Financial Statements and Supplementary Data.”*
  - Inventories are recorded at the lower of cost or market, with cost being determined on a first-in, first-out basis. We write down inventories to net realizable value based on forecasted demand, management judgment and the age of inventory. Actual demand and market conditions may be different from those projected by management, which could have a material effect on our operating results and financial position. See Note 1 in the Notes to our Consolidated Financial Statements contained in *“Item 8 – Financial Statements and Supplementary Data.”*
  - We evaluate the recoverability of property and equipment and intangible assets in accordance with Statement of Financial Accounting Standard No. 144 (“SFAS 144”), *“Accounting for the Impairment or Disposal of Long-Lived Assets.”* We test for impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets’ carrying amounts. An impairment loss is recognized in the event the carrying value of these assets exceeds the fair value of the applicable assets. Impairment evaluations involve management estimates of asset useful lives and future cash flows. Actual useful lives and cash flows could be different from those estimated by management, which could have a material effect on our operating results and financial position. See Note 5 in the Notes to our Consolidated Financial Statements contained in *“Item 8 – Financial Statements and Supplementary Data.”*
  - Our available-for-sale investments, non-marketable securities and other investments are subject to a periodic impairment review pursuant to Emerging Issues Task Force No. 03-1 (“EITF 03-1”), *“The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.”* Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. This determination requires significant judgment and actual results may be materially different than our estimate. Marketable securities are evaluated for impairment if the decline in fair value below cost basis is significant and/or has lasted for an extended period of time. Non-marketable securities or other investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. For investments accounted for using the cost method of accounting, we evaluate information (e.g., budgets, business plans, financial statements, etc.) in addition to quoted market price, if any, in determining whether an other-than-temporary decline in value exists. Factors indicative of an other-than-temporary decline include recurring operating losses, credit defaults and subsequent rounds of financings at an amount below the cost basis of the investment. This list is not all inclusive and we weigh all quantitative and qualitative factors in determining if an other-than-temporary decline in value of an investment has occurred. When a decline in value is deemed to be other-than-temporary, we recognize an impairment loss in the current period’s operating results to the extent of the decline. Actual values could be different from those estimated by management, which could have a material effect on our operating results and



financial position. See Notes 2 and 4 in the Notes to our Consolidated Financial Statements contained in “*Item 8 – Financial Statements and Supplementary Data.*”

- We provide for the recognition of deferred tax assets in accordance with Statement of Financial Accounting Standards No. 109 (“SFAS No. 109”), “*Accounting for Income Taxes,*” if realization of such assets is more likely than not. We have provided a valuation allowance equal to our net U.S. deferred tax assets due to uncertainties regarding their realization. We evaluate the realizability of our deferred tax assets on a quarterly basis. In the event we are able determine that it is more likely than not that we will realize some or all of our U.S. deferred tax assets, then an adjustment to the deferred tax asset would increase either income or contributed capital in the period such determination was made. See Note 14 in the Notes to our Consolidated Financial Statements contained in “*Item 8 – Financial Statements and Supplementary Data.*”
- Our taxes payable balance is comprised primarily of tax contingencies that are recorded to address exposures involving tax positions we have taken that could be challenged by taxing authorities. These exposures result from the varying application of statutes, rules, regulations, and interpretations. Our tax contingencies relate to transfer pricing positions we have taken in a variety of countries in which we operate. The ultimate resolution of these matters may be materially greater or less than the amount that we have accrued. See Note 14 in the Notes to our Consolidated Financial Statements contained in “*Item 8 – Financial Statements and Supplementary Data.*”
- Restructuring charges for workforce reductions and facilities consolidations reflected in the accompanying financial statements were accrued based upon specific plans established by management, in accordance with Emerging Issues Task Force No. 94-3 (“EITF 94-3”), “*Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*” or SFAS 146, “*Accounting for Costs Associated with Exit or Disposal Activities*” depending upon the time of the restructuring activity. We use an estimated borrowing rate as the discount rate for all of our restructuring accruals made under SFAS 146. Our facilities consolidation accruals are based upon our estimates as to the length of time a facility would be vacant, as well as the amount of sublease income we would receive once we sublet the facility, after considering current and projected market conditions. Changes in these estimates could result in an adjustment to our restructuring accruals in a future quarter, which could have a material effect on our operating results and financial position. See Note 10 in the Notes to our Consolidated Financial Statements contained in “*Item 8 – Financial Statements and Supplementary Data.*”
- We are subject to the possibility of loss contingencies for various legal matters. See Note 7 in the Notes to our Consolidated Financial Statements contained in “*Item 8 – Financial Statements and Supplementary Data.*” We regularly evaluate current information available to us to determine whether any accruals should be made based on the status of the case, the results of the discovery process and other factors. If we ultimately determine that an accrual should be made for a legal matter, this accrual could have a material effect on our operating results and financial position and the ultimate outcome may be materially different than our estimate.

#### **ITEM 7A. *Quantitative and Qualitative Disclosures about Market Risk***

We are exposed to market risks associated with interest rates on our debt-related investments and currency movements on non-U.S. dollar denominated assets and liabilities. We assess these risks on a regular basis and have established policies to protect against the adverse effects of these and other potential exposures. All of the potential changes noted below are based on sensitivity analyses at March 25, 2006. Actual results may differ materially.

##### **Interest Rate Risk**

At March 25, 2006, an immediate one percent, or 100 basis points, increase or decrease in interest rates could result in a \$2.1 million fluctuation in our annual interest income. We believe the risks associated with fluctuating interest rates are limited to our annual interest income and not the underlying principal as we generally have the ability to hold debt related investments to maturity. At March 26, 2005, an immediate one percent, or 100 basis points, increase or decrease in interest rates would have resulted in a \$1.9 million fluctuation in our annual interest income. As with fiscal year 2006, the risks associated with fluctuating interest rates were limited to our annual interest income and not the underlying principal as we generally have the ability to hold debt related investments to maturity. The amounts disclosed in this paragraph are based on a 100 basis point fluctuation in interest rates applied to the average cash balance for that fiscal year.

Foreign Currency Exchange Risk

Our revenue and spending is transacted primarily in U.S. dollars; however, in fiscal years 2006, 2005 and 2004, we entered into minimal transactions in other currencies to fund the operating needs of our design, technical support and sales offices outside of the U.S. As of March 25, 2006 and March 26, 2005, a ten percent change in the value of the related currencies would not have a material impact on our results of operations and financial position.

In addition to the direct effects of changes in exchange rates on the value of open exchange contracts, we may, from time to time, have changes in exchange rates that can also affect the volume of sales or the foreign currency sales prices of our products and the relative costs of operations based overseas.

Non-Marketable Securities Risk

Our investments in non-marketable securities are affected by many of the same factors that could result in an adverse movement of market prices, although the impact cannot be directly quantified. Such a movement and the underlying economic conditions would negatively affect the prospects of the companies we invest in, their ability to raise additional capital and the likelihood of our being able to realize our investments through liquidity events such as initial public offerings, mergers or private sales. These types of investments involve a great deal of risk, and there can be no assurance that any specific company will grow or become successful; consequently, we could lose all or part of our investment. At March 25, 2006, our investment in non-marketable securities had a carrying amount of \$7.9 million. The carrying amount of this investment approximated fair value as of March 25, 2006. As of March 26, 2005 we had no non-marketable securities.

ITEM 8. Financial Statements and Supplementary Data

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders  
Cirrus Logic, Inc.

We have audited the accompanying consolidated balance sheets of Cirrus Logic, Inc. (the Company), as of March 25, 2006 (restated) and March 26, 2005 (restated), and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three fiscal years in the period ended March 25, 2006 (as restated). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cirrus Logic, Inc., at March 25, 2006 (restated) and March 26, 2005 (restated), and the consolidated results of its operations and its cash flows for each of the three fiscal years in the period ended March 25, 2006 (as restated), in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1A to the consolidated financial statements, the 2006, 2005 and 2004 consolidated financial statements have been restated to correct errors in recording stock-based compensation expense, and the related tax impact.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Cirrus Logic, Inc.'s internal control over financial reporting as of March 25, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 19, 2006, except for the effects of the material weakness described in the sixth paragraph, as to which the date is April 16, 2007, expressed an unqualified opinion on management's assessment of and an adverse opinion on the effectiveness of internal control over financial reporting.

/s/Ernst & Young LLP

Austin, Texas  
May 16, 2006, except for Note1A as to which the date is April 16, 2007

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders  
Cirrus Logic, Inc.

We have audited management’s assessment, included in the accompanying Management’s Report on Internal Control over Financial Reporting (Restated) set forth in Item 9A of this Form 10K/A, that Cirrus Logic, Inc. did not maintain effective internal control over financial reporting as of March 25, 2006, because of the effect of a material weakness identified in management’s assessment as described below, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Cirrus Logic, Inc.’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management’s assessment and an opinion on the effectiveness of the company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management’s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our report dated May 19, 2006, we expressed an unqualified opinion on management’s previous assessment that Cirrus Logic, Inc. maintained effective internal control over financial reporting as of March 25, 2006, and an unqualified opinion that the company maintained, in all material respects, effective internal control over financial reporting as of March 25, 2006, based on the COSO criteria. As described in the following paragraph, the Company subsequently identified material misstatements in its consolidated financial statements, which caused such consolidated financial statements to be restated. Management subsequently revised its assessment to include the identification of the material weakness described in the following paragraph and conclude that Cirrus Logic, Inc.’s internal control over financial reporting was not effective as of March 25, 2006. Accordingly, our present opinion on the effectiveness of Cirrus Logic, Inc.’s internal control over financial reporting as of March 25, 2006, as expressed herein, is different from that expressed in our previous report.

A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified in management’s

assessment. A material weakness was identified with respect to the Company’s control environment as it relates to stock option granting practices, including the involvement of the Company’s former CEO in the process, which resulted in the restatement of the Company’s consolidated financial statements for each of the years ended March 25, 2006, March 26, 2005 and March 27, 2004. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audits of the 2006, 2005 and 2004 financial statements, and this report does not effect our report dated May 19, 2006, except for Note 1A, as to which the date is April 16, 2007, on those consolidated financial statements.

In our opinion, management’s revised assessment that Cirrus Logic, Inc. did not maintain effective internal control over financial reporting as of March 25, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the internal control criteria, Cirrus Logic, Inc. has not maintained effective internal control over financial reporting as of March 25, 2006, based on the COSO criteria.

/s/Ernst & Young LLP

Austin, Texas

May 19, 2006, except for the effects of the material weakness described in the sixth paragraph as to which the date is April 16, 2007

**CIRRUS LOGIC, INC.**  
**CONSOLIDATED BALANCE SHEET**  
(in thousands)

	March 25,2006	March 26,2005
	<u>Restated</u>	<u>Restated</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 116,675	\$ 79,235
Restricted investments	5,755	7,898
Marketable securities	102,335	91,559
Accounts receivable, net	20,937	18,593
Inventories	18,708	26,649
Prepaid assets	2,488	2,755
Other current assets	5,259	3,845
Total current assets	272,157	230,534
Long-term marketable securities	18,703	1,021
Property and equipment, net	14,051	17,572
Intangibles, net	2,966	10,786
Investment in Magnum Semiconductor	7,947	-
Other assets	3,217	2,897
Total assets	<u>\$ 319,041</u>	<u>\$ 262,810</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 14,129	\$ 10,546
Accrued salaries and benefits	6,460	8,164
Other accrued liabilities	10,053	11,330
Deferred income on shipments to distributors	7,098	7,935
Income taxes payable	2,228	9,276
Total current liabilities	39,968	47,251
Long-term restructuring accrual	4,694	3,678
Other long-term obligations	10,109	8,675
Stockholders' equity:		
Capital stock, \$0.001 par value, 280,000 shares authorized, 86,816 shares and 85,206 shares issued and outstanding at March 25, 2006 and March 26, 2005, respectively	914,235	905,860
Accumulated deficit	(649,075)	(701,501)
Accumulated other comprehensive loss	(890)	(1,153)
Total stockholders' equity	264,270	203,206
Total liabilities and stockholders' equity	<u>\$ 319,041</u>	<u>\$ 262,810</u>

The accompanying notes are an integral part of these financial statements

**CIRRUS LOGIC, INC.**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
(in thousands, except per share amounts)

	Twelve Months Ended		
	March 25, 2006	March 26, 2005	March 27, 2004
	Restated	Restated	Restated
Net sales	\$ 193,694	\$ 194,900	\$ 196,338
Cost of sales	88,502	101,638	95,637
Gross Margin	105,192	93,262	100,701
Operating expenses:			
Research and development	45,772	80,549	91,987
Selling, general and administrative	51,271	42,459	53,705
Restructuring and other, net	2,311	9,463	9,526
Patent infringement settlements, net	-	-	(14,402)
Litigation settlement, net	(24,758)	-	(45,000)
License agreement amendment	(7,000)	-	-
Patent agreement and settlements, net	-	(593)	(17,000)
Total operating expenses	67,596	131,878	78,816
Income (loss) from operations	37,596	(38,616)	21,885
Realized gain on marketable securities	388	806	12,047
Interest income, net	7,461	3,208	1,875
Other income (expense), net	(54)	317	(18)
Income (loss) before income taxes	45,391	(34,285)	35,789
Benefit for income taxes	(7,035)	(20,789)	(7,059)
Net income (loss)	\$ 52,426	\$ (13,496)	\$ 42,848
Basic income (loss) per share:	\$ 0.61	\$ (0.16)	\$ 0.51
Diluted income (loss) per share:	\$ 0.60	\$ (0.16)	\$ 0.50
Basic weighted average common shares outstanding:	86,036	84,746	84,019
Diluted weighted average common shares outstanding:	87,775	84,746	85,602

The accompanying notes are an integral part of these financial statements

**CIRRUS LOGIC, INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(in thousands)

	Year Ended March 25, 2006	Year Ended March 26, 2005	Year Ended March 27, 2004
	Restated	Restated	Restated
Cash flows from operating activities:			
Net income (loss)	\$ 52,426	\$ (13,496)	\$ 42,848
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	8,511	24,157	27,198
Stock compensation expense	2,121	1,468	4,973
Loss (gain) on retirement or write off of long lived assets	(821)	5,936	2,043
Loss on impairment of assets held for sale	-	-	723
Amortization of lease settlement	(995)	(3,778)	(1,442)
Property lease buyout	-	(4,343)	-
Realized gain on marketable securities	(388)	(806)	(11,786)
Changes in operating assets and liabilities:	-	-	-
Accounts receivable, net	(2,344)	1,211	2,908
Inventories	6,976	2,983	(7,293)
Deferred tax assets	(340)	-	-
Other Assets	(1,276)	2,412	3,672
Accounts payable	3,583	(8,721)	9,047
Accrued salaries and benefits	(1,704)	(1,295)	(305)
Deferred income on shipments to distributors	(837)	4,429	53
Income taxes payable	(7,048)	(20,831)	(7,713)
Other accrued liabilities	1,952	(6,429)	4,658
Net cash provided by (used in) operating activities	59,816	(17,103)	69,584
Cash flows from investing activities:			
Proceeds from sale of marketable securities	159,777	50,630	12,047
Purchases of available for sale marketable securities	(187,605)	(109,377)	(32,911)
Purchases of property and equipment	(2,198)	(3,621)	(2,314)
Investments in technology	(729)	(3,146)	(8,678)
Proceeds from sale of property and equipment	-	-	3,500
(Increase) decrease in deposits and other assets	(18)	187	(310)
Decrease in restricted investments	2,143	261	3,685
Net cash used in investing activities	(28,630)	(65,066)	(24,981)
Cash flows from financing activities:			
Issuance of common stock, net of issuance costs	6,254	3,511	2,326
Net cash provided by financing activities	6,254	3,511	2,326
Net increase (decrease) in cash and cash equivalents	37,440	(78,658)	46,929
Cash and cash equivalents at beginning of period	79,235	157,893	110,964
Cash and cash equivalents at end of period	\$ 116,675	\$ 79,235	\$ 157,893

**SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:**

Cash payments (refunds) during the year for:

Interest expense	-	-	-
Income taxes	333	(1,646)	698

The accompanying notes are an integral part of these financial statements.



**CIRRUS LOGIC, INC.**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
(in thousands)

	<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Accumulated</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Deficit</u>	<u>Other</u>	<u>Total</u>
			<u>Capital</u>	<u>Restated</u>	<u>Comprehensive</u>	<u>Restated</u>
					<u>Income (Loss)</u>	
Balance, March 29, 2003	83,761	84	893,498	(730,853)	(537)	162,192
Components of comprehensive income (loss):						
Net income	-	-	-	42,848	-	42,848
Change in unrealized gain on marketable securities	-	-	-	-	1,676	1,676
Realized gain on marketable equity securities	-	-	-	-	(1,359)	(1,359)
Change in unrealized loss on foreign currency translation adjustments	-	-	-	-	49	49
Total comprehensive loss						43,214
Issuance of stock under stock plans	618	-	2,326	-	-	2,326
Issuance of shares previously held back from prior year acquisitions	16	-	-	-	-	-
Amortization of deferred stock compensation	-	-	4,973	-	-	4,973
Balance, March 27, 2004	84,395	84	900,797	(688,005)	(171)	212,705
Components of comprehensive income (loss):						
Net loss	-	-	-	(13,496)	-	(13,496)
Change in unrealized loss on marketable securities	-	-	-	-	(313)	(313)
Realized gain on marketable securities	-	-	-	-	(669)	(669)
Total comprehensive loss						(14,478)
Issuance of stock under stock plans	811	1	3,510	-	-	3,511
Amortization of deferred stock compensation	-	-	1,468	-	-	1,468
Balance, March 26, 2005	85,206	85	905,775	(701,501)	(1,153)	203,206
Components of comprehensive income (loss):						
Net income	-	-	-	52,426	-	52,426
Change in unrealized loss on marketable securities	-	-	-	-	263	263
Realized gain on marketable securities	-	-	-	-	-	-
Total comprehensive income						52,689
Issuance of stock under stock plans	1,610	2	6,252	-	-	6,254
Amortization of deferred stock compensation	-	-	2,121	-	-	2,121
Balance, March 25, 2006	86,816	87	914,148	(649,075)	(890)	264,270

The accompanying notes are an integral part of these financial statements.

**CIRRUS LOGIC, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Description of Business and Summary of Significant Accounting Policies**

*Description of Business*

Cirrus Logic, Inc. (“Cirrus Logic,” “Cirrus,” “We,” “Us,” “Our,” or the “Company”) develops high-precision analog and mixed-signal integrated circuits (“ICs”) for a broad range of consumer and industrial markets. Building on our diverse analog mixed-signal patent portfolio, Cirrus Logic delivers highly optimized products for consumer and commercial audio, automotive entertainment and industrial applications. We develop and market ICs and embedded software used by original equipment manufacturers. We also provide complete system reference designs based on our technology that enable our customers to bring products to market in a timely and cost-effective manner.

We were founded in 1984 and were reincorporated in the State of Delaware in February 1999. Our headquarters are in Austin, Texas with design centers in Boulder, Colorado and Beijing, China and sales locations throughout the United States. We also serve customers from international offices in Europe and Asia, including the People’s Republic of China, Hong Kong, Korea, Japan, Singapore, and Taiwan. Our common stock, which has been publicly traded since 1989, is listed on the NASDAQ National Market under the symbol CRUS.

*Basis of Presentation*

We prepare financial statements on a 52- or 53-week year that ends on the last Saturday in March. All fiscal years presented include 52 weeks. Fiscal year 2007 will be our next 53-week year. We will have an additional week, which will be included in our third fiscal quarter ending December 30, 2006.

*Principles of Consolidation*

The accompanying consolidated financial statements have been prepared in accordance with U. S. generally accepted accounting principles and include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

*Use of Estimates*

The preparation of financial statements in accordance with U. S. generally accepted accounting principles require the use of management estimates. These estimates are subjective in nature and involve judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at fiscal year end and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

*Reclassifications*

Certain reclassifications have been made to conform to the fiscal year 2006 presentation. We have reclassified “Amortization of Acquired Intangibles” on the Consolidated Statement of Operations to research and development expense. These reclassifications had no effect on the results of operations or stockholders’ equity.

*Cash and Cash Equivalents*

Cash and cash equivalents consist primarily of money market funds, commercial paper, U.S. Government Treasury and Agency instruments with original maturities of three months or less at the date of purchase.

*Restricted Investments*

As of March 25, 2006 and March 26, 2005, we have restricted investments of \$5.8 million and \$7.9 million, respectively, in support of our letter of credit needs. The letters of credit primarily secure certain obligations under our operating lease agreement for our headquarters and engineering facility in Austin, Texas and are scheduled for periodic declines in amount. For more details, see Note 7.

Marketable Securities

We determine the appropriate classification of marketable securities at the time of purchase and reevaluate this designation as of each balance sheet date. We classify these securities as either held-to-maturity, trading, or available-for-sale in accordance with Statement of Financial Accounting Standards No. 115 (“SFAS 115”), “*Accounting for Certain Investments in Debt and Equity Securities.*” As of March 25, 2006 and March 26, 2005, all marketable securities and restricted investments were classified as available-for-sale securities.

Available-for-sale securities are carried at fair value, with unrealized gains and losses included as a component of accumulated other comprehensive income (loss). The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity computed under the effective interest method and is included in interest income. Realized gains and losses, declines in value judged to be other than temporary and interest on available-for-sale securities are included in net income. The cost of securities sold is based on the specific identification method.

Inventories

We use the lower of cost or market method to value our inventories, with cost being determined on a first-in, first-out basis. One of the factors we consistently evaluate in the application of this method is the extent to which products are accepted into the marketplace. By policy, we evaluate market acceptance based on known business factors and conditions by comparing forecasted customer unit demand for our products over a specific future period, or demand horizon, to quantities on hand at the end of each accounting period.

On a quarterly and annual basis, we analyze inventories on a part-by-part basis. Inventory quantities on hand in excess of forecasted demand are considered to have reduced market value and, therefore, the cost basis is adjusted to the lower of cost or market. Typically, market values for excess or obsolete inventories are considered to be zero. The short product life cycles and the competitive nature of the industry are factors considered in the estimation of customer unit demand at the end of each quarterly accounting period.

Inventories were comprised of the following (in thousands):

	March 25, 2006	March 26, 2005
Work in process	\$ 10,662	\$ 20,142
Finished goods	8,046	6,507
Inventories	<u>\$ 18,708</u>	<u>\$ 26,649</u>

Property and Equipment, net

Property and equipment is recorded at cost, net of depreciation and amortization. Depreciation and amortization is calculated on a straight-line basis over estimated economic lives, ranging from three to ten years. Leasehold improvements are depreciated over the shorter of the term of the lease or the estimated useful life. Furniture, fixtures, machinery, and equipment are all depreciated over a useful life of 5 years. In general, our capitalized software is depreciated over a useful life of 3 years, with capitalized enterprise resource planning software being depreciated over a useful life of 10 years. Gains or losses related to retirements or dispositions of fixed assets are recognized in the period incurred.

Property and equipment was comprised of the following (in thousands):

	March 25, 2006	March 26, 2005
Furniture and fixtures	\$ 4,331	\$ 5,399
Leasehold improvements	13,369	15,388
Machinery and equipment	20,414	26,246
Capitalized software	<u>17,926</u>	<u>18,348</u>
Total property and equipment	56,040	65,381
Less: Accumulated depreciation and amortization	<u>(41,989)</u>	<u>(47,809)</u>
Property and equipment, net	<u>\$ 14,051</u>	<u>\$ 17,572</u>

Depreciation and amortization expense on property and equipment for fiscal years 2006, 2005, and 2004 was \$5.1 million, \$7.1 million, and \$8.9 million, respectively.

*Non-marketable securities and other investments*

Investments in companies in which Cirrus does not have significant influence are accounted for at cost if the investment is not publicly traded. These non-marketable securities and other investments have been classified as other current assets, other assets, or specifically identified in accordance with Accounting Principles Bulletin No. 18, “*The Equity Method of Accounting for Investments in Common Stock.*” Dividends and other distributions of earnings from investments accounted for at cost are included in income when declared. Any gain will be recorded at the time of liquidation of the non-marketable security or other investment.

*Other-Than-Temporary Impairment*

All of the Company’s available-for-sale investments, non-marketable securities and other investments are subject to a periodic impairment review pursuant to Emerging Issues Task Force No. 03-1 (“EITF 03-1”), “*The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.*” Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. Marketable securities are evaluated for impairment if the decline in fair value below cost basis is significant and/or has lasted for an extended period of time. Non-marketable securities or other investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. For investments accounted for using the cost method of accounting, management evaluates information (e.g., budgets, business plans, financial statements, etc.) in addition to quoted market price, if any, in determining whether an other-than-temporary decline in value exists. Factors indicative of an other-than-temporary decline include recurring operating losses, credit defaults and subsequent rounds of financings at an amount below the cost basis of the investment. When a decline in value is deemed to be other-than-temporary, Cirrus recognizes an impairment loss in the current period’s operating results to the extent of the decline.

*Intangibles, net*

Intangible assets include purchased technology licenses that are recorded at cost and are amortized on a straight-line basis over their useful lives, generally ranging from three to five years. Acquired intangibles recorded in connection with our acquisitions, include existing technology, core technology/patents, license agreements, trademarks, covenants not-to-compete and customer agreements. These assets are amortized on a straight-line basis over lives ranging from one to nine years.

*Long-lived assets*

In accordance with Statement of Financial Accounting Standard No. 144 (“SFAS 144”), “*Accounting for the Impairment or Disposal of Long-Lived Assets,*” we test for impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets’ carrying amounts. We measure any impairment loss by comparing the fair value of the asset to its carrying amount. We estimate fair value based on discounted future cash flows, quoted market prices, or independent appraisals.

*Foreign Currency Translation*

All of our international subsidiaries have the U.S. dollar as the functional currency. The local currency financial statements are remeasured into U.S. dollars using current rates of exchange for assets and liabilities. Gains and losses from remeasurement are included in other income (expense), net. Revenue and expenses from our international subsidiaries are translated using the monthly average exchange rates in effect for the period in which the items occur. For all periods presented, our foreign currency translation expense was not significant.

*Concentration of Credit Risk*

Financial instruments that potentially subject us to material concentrations of credit risk consist primarily of cash equivalents, restricted investments, marketable securities, long-term marketable securities and trade accounts receivable. We are exposed to credit risk to the extent of the amounts recorded on the balance sheet. By policy, our cash equivalents, restricted investments, marketable securities and long-term marketable securities are subject to certain nationally recognized credit standards, issuer concentrations, sovereign risk and marketability or liquidity considerations.

In evaluating our trade receivables, we perform credit evaluations of our major customers’ financial condition and monitor closely all of our receivables to limit our financial exposure by limiting the length of time and amount of credit extended. We sell a significant amount of products in the Asia countries. In certain situations, we may

require payment in advance or utilize letters of credit to reduce credit risk. By policy, we establish a reserve for trade accounts receivable based on the type of business in which a customer is engaged, the length of time a trade account receivable is outstanding and other knowledge that we may possess relating to the probability that a trade receivable is at risk for non-payment.

The following table summarizes customers whose receivable balances represent more than 10 percent of consolidated gross short-term accounts receivable:

	March 25, 2006	March 26, 2005
Avnet, Inc. (formerly Memec Group Holdings)	28%	35%
L.G. Group	—	10%

Sales to one distributor Avnet, Inc. (formerly Memec Holdings Group) represented 25 percent, 27 percent and 20 percent in fiscal years 2006, 2005 and 2004, respectively. No other customers or distributors accounted for 10 percent or more of net sales in fiscal years 2006, 2005, and 2004. The loss of a significant customer or distributor or a significant reduction in a customers or distributors orders could have an adverse effect on our sales.

Revenue Recognition

We recognize revenue in accordance with the Securities and Exchange Commission’s Staff Accounting Bulletin No. 104 (“SAB 104”), “Revenue Recognition.” Revenue from product sold directly to customers and to certain international distributors is recognized upon title passage of inventory. For sales made directly to domestic customers, title generally passes upon shipment. For sales made directly to international customers and to certain international distributors, title generally passes at the port of destination, which coincides with delivery to the international distributors. Sales made to domestic distributors and certain international distributors are recorded as deferred revenue until the final sale to the end customer has occurred as the distributor agreements allow certain rights of return, price adjustments and price protection. License and royalty revenue is recognized as it is earned per unit shipped or when a milestone is reached.

Warranty Expense

In November 2002, the FASB issued Interpretation No. 45 (“FIN 45”), “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.” Currently, the only applicable item of FIN 45 relates to the impact of paragraph 14, which refers to product warranties. Because we do not have extended warranties, our exposure is limited to product returns for defective products. In general, we warrant that the products, when delivered, will be free from defects in material workmanship under normal use and service. Our obligations are limited to replacing, repairing or giving credit for, at our option, any products that are returned within one year after the date of shipment and if notice is given to us in writing within 30 days of the customer learning of such problem. Warranty expense was not significant for any period presented.

Shipping Costs

Our shipping and handling costs are included in cost of sales for all periods presented.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs were \$1.1 million, \$1.7 million, and \$1.5 million in fiscal years 2006, 2005, and 2004, respectively.

Stock-Based Compensation

The FASB issued SFAS No. 123(R) “Share-Based Payment,” which supersedes Accounting Principles Board Opinion No. 25 (“APB No. 25”), “Accounting for Stock Issued to Employees,” SFAS No. 123, “Accounting for Stock-Based Compensation” and related implementation guidance. The pronouncement is effective for annual periods beginning after June 15, 2005, and we will implement it at that time. Refer to the section titled “Recently Issued Accounting Pronouncements” for a more detailed discussion of the specific requirements.

We apply the intrinsic value method in accounting for our stock option and stock purchase plans in accordance with APB No. 25. In December 2002, the FASB issued Statement of Financial Accounting Standard No. 148 (“SFAS 148”), “Accounting for Stock-Based Compensation — Transition and Disclosure,” which currently affects us only with regard to quarterly and annual reporting of the pro forma effect on net income and earnings per share of applying the Black-Scholes method to measure compensation expense as required under SFAS No. 123.

The following table details the disclosure required by SFAS No. 123 (in thousands, except per share amounts):

	Twelve Months Ended		
	March 25, 2006	March 26, 2005	March 27, 2004
	Restated	Restated	Restated
Net income (loss) as restated	\$ 52,426	\$ (13,496)	\$ 42,848
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effects	1,734	605	5,032
Deduct: Total stock-based employee compensation expense determined under fair value- based method for all awards, net of tax related effects	(8,033)	(12,640)	(15,853)
Proforma net income (loss) as restated	<u>\$ 46,127</u>	<u>\$ (25,531)</u>	<u>\$ 32,027</u>
Basic net income (loss) per share as restated	\$ 0.61	\$ (0.16)	\$ 0.51
Proforma basic net income (loss) per share as restated	\$ 0.54	\$ (0.30)	\$ 0.38
Diluted net income (loss) per share as restated	\$ 0.60	\$ (0.16)	\$ 0.50
Proforma diluted net income (loss) per share as restated	\$ 0.53	\$ (0.30)	\$ 0.37

Income Taxes

We account for income taxes in accordance with SFAS No. 109, “Accounting for Income Taxes,” which provides for the recognition of deferred tax assets if realization of such assets is more likely than not. We have provided a valuation allowance equal to our net U.S. deferred tax assets due to uncertainties regarding their realization. We evaluate the realizability of our deferred tax assets on a quarterly basis. We have \$0.3 million of deferred tax assets generated in non-U.S. jurisdictions that we have recognized since it is more likely than not that these assets will be realized.

Net Income (Loss) Per Share

Basic net income (loss) per share is based on the weighted effect of common shares issued and outstanding and is calculated by dividing net income (loss) by the basic weighted average shares outstanding during the period. Diluted net income (loss) per share is calculated by dividing net income (loss) by the weighted average number of common shares used in the basic net income (loss) per share calculation, plus the number of common shares that would be issued assuming exercise or conversion of all potentially dilutive common shares outstanding.

Incremental weighted average common shares attributable to the assumed exercise of outstanding options of 1,510,000 shares for the year ended March 26, 2005 were excluded from the computation of diluted net income (loss) per share because the effect would be anti-dilutive due to our loss position during that year. The weighted outstanding options excluded from our diluted calculation for the years ended March 25, 2006, March 26, 2005, and March 27, 2004 were 6,620,000, 7,501,000, and 6,729,000, respectively, as the exercise price exceeded the average market price during the period.

Accumulated Other Comprehensive Loss

We report our accumulated other comprehensive income (loss) based upon Statement of Financial Accounting Standard No. 130, “Reporting Comprehensive Income.” Our accumulated other comprehensive loss is comprised of foreign currency translation adjustments from prior years when we had subsidiaries whose functional currency was not the U.S. Dollar as well as unrealized gains and losses on investments classified as available-for-sale.

Recently Issued Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123(R), which supersedes APB No. 25, SFAS No. 123 and related implementation guidance. Under this pronouncement, stock based compensation to employees is required to be recognized as a charge to the statement of operations and such charge is to be measured according to the fair value of the stock options. In the absence of an observable market price for the stock awards, the fair value of the stock options would be based upon a valuation methodology that takes into consideration various factors, including the exercise price of the option, the expected term of the option, the current price of the underlying shares, the volatility of the company’s stock and the risk free interest rate. For fiscal year 2006, we recognized share-based compensation expense based on the provisions of APB No. 25, however, we do disclose the affect of this item as currently required by SFAS No. 123. Beginning with fiscal year 2007, we will expense shared based compensation

in accordance with the provisions of SFAS No. 123(R). SFAS No. 123(R) allows for either prospective recognition of compensation expense or retrospective recognition, which may be back to the original issuance of SFAS No. 123 or only to interim periods in the year of adoption. The company has chosen to adopt the standard using the modified prospective approach. This pronouncement is effective for fiscal years beginning after June 15, 2005. For Cirrus Logic, we adopted this pronouncement with the beginning of our fiscal year 2007, which began on March 26, 2006.

In December 2005, the FASB released FASB Staff Position (FSP) SFAS No. 123(R)-3, “*Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*,” which provides a practical transition election related to accounting for the tax effects of share-based payment awards to employees. The Company is currently reviewing the transition alternatives for this FSP and will elect the appropriate alternative within one year of the adoption of SFAS No. 123(R).

*Fair Value of Financial Instruments*

The Company’s financial instruments consist principally of cash and cash equivalents, investments, receivables and accounts payable. The Company believes all of these financial instruments are recorded at amounts that approximate their current market values due to their short-term nature or because they are stated at fair value.

**1A. Restatement of Consolidated Financial Statements**

The Consolidated Financial Statements and the related disclosures for the fiscal years ended 2006, 2005 and 2004 and for each of the quarters in fiscal years 2006 and 2005 have been restated as described below.

We are restating our Consolidated Financial Statements to reflect the results of our voluntary review of our stock option granting practices. Our decision to restate our Consolidated Financial Statements was based on the results of a voluntary internal review and independent investigation into our past stock option granting practices. In October 2006, we announced that an internal review of our past practices related to grants of stock options had revealed information that raised potential questions about the measurement dates used to account for certain stock option grants. We also announced that, at the recommendation of the Audit Committee of the Company’s Board of Directors (the “Board”), the Board appointed an independent director to serve as a Special Committee to conduct an investigation into our historic stock option granting practices.

The Special Committee retained independent legal counsel to assist in the investigation. During the eight month investigation, the Special Committee and its independent counsel, assisted by independent forensic accountants, reviewed the facts and circumstances surrounding stock option grants made to executive officers, employees and non-employee directors, searched relevant physical and electronic documents and interviewed current and former directors, officers and employees. This review included an examination of all stock option grants from January 1, 1997 to December 31, 2006.

In March 2007, we announced that the Special Committee had reported its principal findings to the Board relating to the above investigation. Based on the report of the Special Committee and on management’s preliminary conclusions and recommendations, the Board concluded that incorrect measurement dates were used for financial accounting purposes for certain stock options granted between January 1, 1997 and December 31, 2005. We disclosed that the anticipated non-cash charges required to correct the discrepancy would be material and that we expected to restate our financial statements for the fiscal years 2002 through 2006 and for the first quarter of fiscal year 2007. Accordingly, we announced that based on the findings of the Special Committee, and the recommendations of management and the Audit Committee, the Board had concluded that the financial statements, related notes and selected financial data and all financial press releases and similar communications issued by us and the related reports of the Company’s independent registered public accounting firm relating to fiscal periods 2002 through 2006, and the first fiscal quarter of 2007, should no longer be relied upon.

As a result of the findings of the Special Committee detailed below, the Company has recognized \$32.4 million in additional share-based compensation expense arising from stock grants to executive officers and employees. Of this amount, approximately \$9.3 million related to options granted to executive officers who, at the time of the grant, were subject to the reporting requirements under Section 16 of the Exchange Act of 1934. The Special Committee arrived at the following principal findings with respect to the stock option practices of the Company:

- The Company’s stock plan administrative deficiencies between January 1, 1997 and December 31, 2005 led to a number of misdated option grants.

- o New hire and other promotion and retention option grants were generally made the first Wednesday of each month through the use of unanimous written consents (“UWCs”) of the Company’s Compensation Committee. However, prior to January 2006, many of these monthly grants were misdated, as grant dates were routinely established before the receipt of all the signed UWCs authorizing those grants. Of the \$32.4 million in additional share-based compensation expense, \$6.1 million related to these types of errors.
- o Many other off-cycle and broad-based annual option grants that were granted through Board or Compensation Committee resolutions were also misdated due to administrative issues in that grant dates were sometimes established before the list of option award recipients had been finalized. Of the \$32.4 million in additional share-based compensation expense, \$4.3 million related to these types of errors.
- o Beginning in late 2002, the Company formally documented and updated its existing processes and procedures with respect to the granting of options. In 2005, the Company further refined the process and, in 2006, a formal written policy was approved by the Compensation Committee.
- o Approximately 97% of the potential stock-based compensation charges identified as a result of the Special Committee investigation resulted from grants that were made prior to December 31, 2002.
- Prior to 2003, the limited controls and the lack of definitive processes for stock option granting and approval allowed for potential abuse, including the use of hindsight, in the establishment of more favorable grant dates for certain options.
  - o The Special Committee identified three grant dates prior to 2003 on which three management-level employees received new-hire option grants on dates other than when they began rendering services to the Company. Of the \$32.4 million in additional share-based compensation expense, \$1.4 million related to these types of errors.
  - o The grant date for one grant in 2000 is different from the date the grant appears to have been approved by the Board. While no definitive evidence has been identified to clarify this inconsistency, the selected grant date was at a lower closing stock price than the price on the date of apparent board approval.
  - o Based on the evidence developed in the investigation, the Special Committee believes that certain executive officers had knowledge of and participated in the selection of three grant dates for broad-based employee option grants in the 2000 through 2002 timeframe, either with hindsight or prior to completing the formal approval process. Of the \$32.4 million in additional share-based compensation expense, \$12.0 million related to these types of errors.
  - o The executive officers involved in the option grant process prior to 2003, and in particular the grants described above in the 2000 through 2002 timeframe, were no longer with the Company as of the date the Special Committee reported its findings to the Board with the exception of David D. French, the Company’s President and Chief Executive Officer.
  - o In light of the findings, as of March 5, 2007, David D. French resigned as President and Chief Executive Officer and as a director of the Company. The Company has entered into a resignation agreement with Mr. French.
- The Special Committee believes that Mr. French was significantly involved in the grant approval process for certain grants and that he influenced the grant process with a view toward the stock price, and therefore the selection of grant dates, through his control over how quickly or slowly the process was completed. However, the Special Committee does not believe that Mr. French appreciated the significance of the procedural inadequacies or the accounting implications of the grant approval process or grant date selections, or that he was advised by his executive staff of any such inadequacies or implications.
- The Special Committee did not find any irregularities associated with any grants to independent directors or the Company’s two broad-based options exchanges during the relevant period.
- The Special Committee found no documentary or testimonial evidence that the Company’s independent directors were aware of any attempts by the Company’s executive officers to backdate or to otherwise select a favorable grant date, and consequently, had no reason to and did not believe that the accounting or other disclosures were inaccurate.
- The Special Committee further found that the evidence indicates that the independent directors relied upon management to ensure that the Board and Compensation Committee’s grant approvals complied with the Company’s stock option plans and applicable laws and accounting rules.

Subsequent to our press release dated March 2, 2007, the Company identified two other issues based upon the findings of the Special Committee that led to an increase of \$8.6 million in additional share-based compensation expense recognized in the consolidated financial statements in excess of the previous estimate of \$22 million to \$24 million. These issues are described as follows:

- Our previous estimate should have included the intrinsic value of 1.8 million options canceled in relation to a Company wide option exchange in fiscal year 2003, which led to an increase in share-based



compensation expense. Under EITF 00-23, “Issues Related to the Accounting for Stock Compensation under APB Opinion No. 25 and FASB Interpretation No. 44,” Issue 37(a), the compensation cost measured on the original grant date of the re-priced stock option grants that remained unrecognized at the time of the option exchange should have been immediately recognized as expense on the day of the exchange and included in our original estimate. Of the \$8.6 million in additional share-based compensation expense beyond our previous estimate, \$6.5 million related to the correction of this error.

- Our previous estimate should have included certain share-based compensation expenses related to certain modifications to the terms of stock options grants for certain individual employees at the time of their termination. Of the \$8.6 million in additional share-based compensation expense beyond our previous estimate, \$2.1 million related to correction of these types of errors.

As of the date of this filing, the Company has paid a total of approximately \$2.9 million to independent legal counsel, independent forensic accountants, and our independent registered public accounting firm in connection with the eight month investigation into past stock option granting practices.

Share-Based Compensation Summary

In accordance with Accounting Principles Board Opinion No. 25 (“APB No. 25”), “Accounting for Stock Issued to Employees,” our restated consolidated financial statements reflect additional compensation expense to the extent the fair market value of a share of our common stock on the correct measurement date exceeded the exercise price of the option. The additional non-cash compensation expense was amortized over the required service period, generally over the vesting periods of the respective grants. The following table details the share-based compensation adjustments and the related tax effects of all adjustments for fiscal years 2002 through 2006. The decrease in net income (loss) for each type of adjustment is as follows (in thousands):

	Net Income (Loss) [Previously Reported]	Non-cash Stock Compensation Expense Adjustment	Tax Effect of Adjustment	Total Adjustments	Net Income (Loss) [Restated]
Fiscal Year 2002	\$ 206,079	\$ (9,799)	\$ -	\$ 9,799	\$ 215,878
Fiscal Year 2003	(199,213)	(6,986)	-	(6,986)	(206,199)
Fiscal Year 2004	46,503	(3,655)	-	(3,655)	42,848
Fiscal Year 2005	(13,388)	(108)	-	(108)	(13,496)
Fiscal Year 2006	54,145	(1,719)	-	(1,719)	52,426

The effect that these adjustments had on diluted earnings (loss) per share for fiscal years 2002 through 2006 is as follows:

	Earnings (Loss) Per Share [Previously Reported]	Adjustments	Earnings (Loss) Per Share [Restated]
Fiscal Year 2002	\$ (2.66)	\$ (0.13)	\$ (2.79)
Fiscal Year 2003	(2.39)	(0.08)	(2.47)
Fiscal Year 2004	0.54	(0.04)	0.50
Fiscal Year 2005	(0.16)	(0.00)	(0.16)
Fiscal Year 2006	0.62	(0.02)	0.60

The cumulative effect on stockholders’ equity as of March 25, 2006 resulting from the restatement of share-based compensation is as follows (in thousands):

Adjustments to Stockholder’s Equity	Paid-in Capital	Retained Earnings	Unearned Deferred Compensation	Net Impact to Stockholders’ Equity
Fiscal Year 2003 & Prior	\$29,392	\$(26,941)	\$(3,786)	\$(1,335)
Fiscal Year 2004	2,109	(3,655)	1,487	(59)
Fiscal Year 2005	(481)	(108)	1,452	863
Fiscal Year 2006	1,592	(1,719)	514	387
Cumulative effect through Fiscal Year 2006	<u>\$ 32,612</u>	<u>\$ (32,423)</u>	<u>\$ (333)</u>	<u>\$ (144)</u>

The net impact to Stockholder’s Equity detailed above was completely offset by a change in other accrued liabilities for each period presented. These were the only adjustments made to our consolidated balance sheet as a result of the restatement. The net book value of our deferred tax assets did not change as a result of the restatement as we continue to provide a full valuation allowance against them.

The incremental effect of recognizing additional share-based compensation expense resulting from grants with incorrect measurement dates is as follows (in thousands):

	Pre-Tax Expense	After-Tax Expense
Fiscal Year 1998	326	326
Fiscal Year 1999	2,083	2,083
Fiscal Year 2000	2,100	2,100
Fiscal Year 2001	5,647	5,647
Fiscal Year 2002	9,799	9,799
Fiscal Year 2003	6,986	6,986
Total 1998 – 2003 effect	26,941	26,941
Fiscal Year 2004	3,655	3,655
Fiscal Year 2005	108	108
Fiscal Year 2006	1,719	1,719
	5,482	5,482
	<u>\$ 32,423</u>	<u>\$ 32,423</u>

*Litigation Summary*

On January 5, 2007, a purported stockholder filed a derivative lawsuit in state district court in Travis County, Texas against current and former officers and directors of Cirrus Logic and against the Company, as a nominal defendant, alleging various breaches of fiduciary duties, conspiracy, improper financial reporting, insider trading, violations of the Texas Securities Act, unjust enrichment, accounting, gross mismanagement, abuse of control, rescission, and waste of corporate assets related to certain prior grants of stock options by the Company. Our response to the lawsuit is currently due on April 20, 2007.

On March 19, 2007, another purported stockholder filed a derivative lawsuit related to the Company’s prior stock option grants in the United States District Court for the Western District of Texas — Austin Division against current and former officers and directors of Cirrus Logic and against the Company, as a nominal defendant. The individual defendants named in this lawsuit overlap, but not completely, with the state suit. The lawsuit alleges many of the causes of action alleged in the Texas state court suit, but also includes claims for alleged violations of Section 10(b) of the Exchange Act and Rule 10b-5, violations of Section 14(a) of the Exchange Act and violations of Section 20(a) of the Exchange Act. On April 10, 2007, we filed a motion to dismiss the complaint on the grounds that the plaintiff was supposed to make demands on the Board before filing the lawsuit. The plaintiff has not filed a response and no hearing before the court is currently set on the motion to dismiss.

On March 30, 2007, a different purported stockholder filed a nearly identical derivative lawsuit to the March 19, 2007 derivative lawsuit in the United States District Court for the Western District of Texas — Austin Division with identical allegations against the same defendants. We are currently evaluating this plaintiff’s claims.

The following table sets forth the impact of the above adjustments and the related tax effects on our historical Consolidated Statements of Income for each of the three years ended March 25, 2006, March 26, 2005, and March 27, 2004:

**CIRRUS LOGIC, INC.**  
**CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS**  
**(in thousands, except per share amounts)**

	Year Ended March 25, 2006			Year Ended March 26, 2005			Year Ended March 27, 2004		
	Previously Reported	Adjustments	Restated	Previously Reported	Adjustments	Restated	Previously Reported	Adjustments	Restated
Net sales	\$ 193,694	\$ -	\$193,694	\$ 194,900	\$ -	\$194,900	\$ 196,338	\$ -	\$196,338
Cost of sales	88,482	20	88,502	101,637	1	101,638	95,594	43	95,637
Gross Margin	105,212	(20)	105,192	93,263	(1)	93,262	100,744	(43)	100,701
Research and development	45,101	671	45,772	80,507	42	80,549	90,562	1,425	91,987
Selling, general and administrative	50,243	1,028	51,271	42,394	65	42,459	51,518	2,187	53,705
Restructuring and other, net	2,311	-	2,311	9,463	-	9,463	9,526	-	9,526
Patent infringement settlements, net	-	-	-	-	-	-	(14,402)	-	(14,402)
Litigation settlement, net	(24,758)	-	(24,758)	-	-	-	(45,000)	-	(45,000)
License Agreement	(7,000)	-	(7,000)	-	-	-	-	-	-
Patent agreement, net	-	-	-	(593)	-	(593)	(17,000)	-	(17,000)
Total operating expenses	65,897	1,699	67,596	131,771	107	131,878	75,204	3,612	78,816
Income (loss) from operations	39,315	(1,719)	37,596	(38,508)	(108)	(38,616)	25,540	(3,655)	21,885
Realized gain on marketable securities	388	-	388	806	-	806	12,047	-	12,047
Interest income, net	7,461	-	7,461	3,208	-	3,208	1,875	-	1,875
Other income (expense), net	(54)	-	(54)	317	-	317	(18)	-	(18)
Income (loss) before income taxes	47,110	(1,719)	45,391	(34,177)	(108)	(34,285)	39,444	(3,655)	35,789
Benefit for income taxes	(7,035)	-	(7,035)	(20,789)	-	(20,789)	(7,059)	-	(7,059)
Net income (loss)	<u>\$ 54,145</u>	<u>\$ (1,719)</u>	<u>\$ 52,426</u>	<u>\$ (13,388)</u>	<u>\$ (108)</u>	<u>\$ (13,496)</u>	<u>\$ 46,503</u>	<u>\$ (3,655)</u>	<u>\$ 42,848</u>
Earnings per share:									
Basic	\$ 0.63	\$ (0.02)	\$ 0.61	\$ (0.16)	\$ -	\$ (0.16)	\$ 0.55	\$ (0.04)	\$ 0.51
Diluted	\$ 0.62	\$ (0.02)	\$ 0.60	\$ (0.16)	\$ -	\$ (0.16)	\$ 0.54	\$ (0.04)	\$ 0.50
Weighted Average Common Shares Outstanding:									
Basic	86,036		86,036	84,746		84,746	84,019		84,019
Diluted	87,775		87,775	84,746		84,746	85,602		85,602

The following table sets forth the impact of the stock-based compensation adjustments and the related tax effects on our historical Consolidated Balance Sheets as March 25, 2006 and March 26, 2005:

**CIRRUS LOGIC, INC.**  
**CONSOLIDATED BALANCE SHEET**  
**(in thousands)**

	Year Ended March 25, 2006			Year Ended March 26, 2005		
	Previously Reported	Adjustments	Restated	Previously Reported	Adjustments	Restated
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 116,675	\$ -	\$ 116,675	\$ 79,235	\$ -	\$ 79,235
Restricted investments	5,755	-	5,755	7,898	-	7,898
Marketable securities	102,335	-	102,335	91,559	-	91,559
Accounts receivable, net	20,937	-	20,937	18,593	-	18,593
Inventories	18,708	-	18,708	26,649	-	26,649
Prepaid assets	2,488	-	2,488	2,755	-	2,755
Other current assets	5,259	-	5,259	3,845	-	3,845
Total current assets	272,157	-	272,157	230,534	-	230,534
Long-term marketable securities	18,703	-	18,703	1,021	-	1,021
Property and equipment, net	14,051	-	14,051	17,572	-	17,572
Intangibles, net	2,966	-	2,966	10,786	-	10,786
Investment in Magnum Semiconductor	7,947	-	7,947	-	-	-
Other assets	3,217	-	3,217	2,897	-	2,897
Total assets	<u>\$ 319,041</u>	<u>\$ -</u>	<u>\$ 319,041</u>	<u>\$ 262,810</u>	<u>\$ -</u>	<u>\$ 262,810</u>
<b>Liabilities and Stockholders' Equity</b>						
Current liabilities:						
Accounts payable	\$ 14,129	\$ -	\$ 14,129	\$ 10,546	\$ -	\$ 10,546
Accrued salaries and benefits	6,460	-	6,460	8,164	-	8,164
Other accrued liabilities	9,909	144	10,053	10,799	531	11,330
Deferred income on shipments to distributors	7,098	-	7,098	7,935	-	7,935
Income taxes payable	2,228	-	2,228	9,276	-	9,276
Total current liabilities	39,824	144	39,968	46,720	531	47,251
Long-term restructuring accrual	4,694	-	4,694	3,678	-	3,678
Other long-term obligations	10,109	-	10,109	8,675	-	8,675
Stockholders' equity:						
Capital stock	881,956	32,279	914,235	875,687	30,173	905,860
Accumulated deficit	(616,652)	(32,423)	(649,075)	(670,797)	(30,704)	(701,501)
Accumulated other comprehensive loss	(890)	-	(890)	(1,153)	-	(1,153)
Total stockholders' equity	264,414	(144)	264,270	203,737	(531)	203,206
Total liabilities and stockholders' equity	<u>\$ 319,041</u>	<u>-</u>	<u>\$ 319,041</u>	<u>\$ 262,810</u>	<u>-</u>	<u>\$ 262,810</u>

The following table shows the effect of the restatement on the components of our previously reported cash flows:

CIRRUS LOGIC, INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(in thousands)

	Year Ended March 25, 2006			Year Ended March 26, 2005			Year Ended March 27, 2004		
	Previously Reported	Adjustments	Restated	Previously Reported	Adjustments	Restated	Previously Reported	Adjustments	Restated
Cash flows from operating activities:									
Net income (loss)	\$ 54,145	\$ (1,719)	\$ 52,426	\$ (13,388)	\$ (108)	\$ (13,496)	\$ 46,503	\$ (3,655)	\$ 42,848
Adjustments to reconcile net loss to net cash used in operating activities:									
Depreciation and amortization	8,511	-	8,511	24,157	-	24,157	27,198	-	27,198
Stock compensation expense	15	2,106	2,121	497	971	1,468	1,377	3,596	4,973
Loss (gain) on retirement or write off of long lived assets	(821)	-	(821)	5,936	-	5,936	2,043	-	2,043
Loss on impairment of assets held for sale	-	-	-	0	-	-	723	-	723
Amortization of lease settlement	(995)	-	(995)	(3,778)	-	(3,778)	(1,442)	-	(1,442)
Property lease buyout	-	-	-	(4,343)	-	(4,343)	-	-	-
Realized gain on marketable securities	(388)	-	(388)	(806)	-	(806)	(11,786)	-	(11,786)
Changes in operating assets and liabilities:									
Accounts receivable, net	(2,344)	-	(2,344)	1,211	-	1,211	2,908	-	2,908
Inventories	6,976	-	6,976	2,983	-	2,983	(7,293)	-	(7,293)
Deferred tax assets	(340)	-	(340)	-	-	-	-	-	-
Other Assets	(1,276)	-	(1,276)	2,412	-	2,412	3,672	-	3,672
Accounts payable	3,583	-	3,583	(8,721)	-	(8,721)	9,047	-	9,047
Accrued salaries and benefits	(1,704)	-	(1,704)	(1,295)	-	(1,295)	(305)	-	(305)
Deferred income on shipments to distributors	(837)	-	(837)	4,429	-	4,429	53	-	53
Income taxes payable	(7,048)	-	(7,048)	(20,831)	-	(20,831)	(7,713)	-	(7,713)
Other accrued liabilities	2,339	(387)	1,952	(5,566)	(863)	(6,429)	4,599	59	4,658
Net cash provided by (used in) operating activities	59,816	-	59,816	(17,103)	-	(17,103)	69,584	-	69,584
Cash flows from investing activities:									
Proceeds from sale of marketable securities	159,777	-	159,777	50,630	-	50,630	12,047	-	12,047
Purchases of available for sale marketable securities	(187,605)	-	(187,605)	(109,377)	-	(109,377)	(32,911)	-	(32,911)
Purchases of property and equipment	(2,198)	-	(2,198)	(3,621)	-	(3,621)	(2,314)	-	(2,314)
Investments in technology	(729)	-	(729)	(3,146)	-	(3,146)	(8,678)	-	(8,678)
Proceeds from sale of property and equipment	-	-	-	-	-	-	3,500	-	3,500
(Increase) decrease in deposits and other assets	(18)	-	(18)	187	-	187	(310)	-	(310)
Decrease in restricted investments	2,143	-	2,143	261	-	261	3,685	-	3,685
Net cash used in investing activities	(28,630)	-	(28,630)	(65,066)	-	(65,066)	(24,981)	-	(24,981)
Cash flows from financing activities:									
Issuance of common stock, net of issuance costs	6,254	-	6,254	3,511	-	3,511	2,326	-	2,326
Net cash provided by financing activities	6,254	-	6,254	3,511	-	3,511	2,326	-	2,326
Net increase (decrease) in cash and cash equivalents	37,440	-	37,440	(78,658)	-	(78,658)	46,929	-	46,929
Cash and cash equivalents at beginning of period	79,235	-	79,235	157,893	-	157,893	110,964	-	110,964
Cash and cash equivalents at end of period	\$ 116,675	\$ -	\$ 116,675	\$ 79,235	\$ -	\$ 79,235	\$ 157,893	\$ -	\$ 157,893

SUPPLEMENTAL DISCLOSURE OF  
NON-CASH ACTIVITY:

Cash payments (refunds) during the year for:

Interest expense	-	-	-	-	-	-	-	-	-
Income taxes	333	-	333	(1,646)	-	(1,646)	698	-	698

2. Marketable Securities

The Company’s investments that have original maturities greater than ninety days have been classified as available-for-sale securities in accordance with Statement of Financial Accounting Standards No. 115 (“SFAS 115”), “*Accounting for Certain Investments in Debt and Equity Securities.*” Marketable securities are categorized on the Balance Sheet as Restricted investments, Marketable securities and Long-term marketable securities, as appropriate.

The following table is a summary of available-for-sale securities (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value (Net Carrying Amount)
<i>As of March 25, 2006:</i>				
Corporate securities – U.S	\$ 40,096	\$ 5	\$ (104)	\$ 39,997
Corporate securities – non – U.S.	1,676	—	—	1,676
U.S. Government securities	85,141	—	(218)	84,923
Commercial paper	—	—	—	—
Total debt securities	126,913	5	(322)	126,596
Marketable equity securities	—	197	—	197
	<u>\$ 126,913</u>	<u>\$ 202</u>	<u>\$ (322)</u>	<u>\$ 126,793</u>

  

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value (Net Carrying Amount)
<i>As of March 26, 2005:</i>				
Corporate securities – U.S.	\$ 53,873	\$ —	\$ (257)	\$ 53,616
U.S. Government securities	34,204	—	(85)	34,119
Agency discount notes	8,152	—	(41)	8,111
Commercial paper	4,632	—	—	4,632
Total debt securities	100,861	—	(383)	100,478
Marketable equity securities	—	—	—	—
	<u>\$ 100,861</u>	<u>\$ —</u>	<u>\$ (383)</u>	<u>\$ 100,478</u>

The cost and estimated fair value of available-for-sale investments by contractual maturity were as follows:

	March 25, 2006		March 26, 2005	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within 1 year	\$ 108,156	\$ 107,893	\$ 99,830	\$ 99,457
After 1 year through 2 years	18,757	18,703	1,031	1,021
After 2 years	—	—	—	—
Total debt securities	126,913	126,596	100,861	100,478
Equity securities	—	197	—	—
	<u>\$ 126,913</u>	<u>\$ 126,793</u>	<u>\$ 100,861</u>	<u>\$ 100,478</u>

In the first quarter of fiscal year 2006, we recognized a gain of \$0.4 million related to the sale of an investment in Silicon Laboratories, Inc. (“Silicon Labs”). Total proceeds from the sale were also \$0.4 million. These shares were received as a result of a prior merger agreement whereby Silicon Labs acquired Cygnal Integrated Products, Inc. (“Cygnal”). This merger agreement stated that all shareholders in Cygnal, Cirrus Logic included, would receive shares of stock in Silicon Labs in exchange for their shares in Cygnal. Further, the agreement stated that, should Cygnal achieve certain revenue milestones, the former Cygnal shareholders would receive a designated amount of stock in Silicon Labs. Cygnal surpassed certain of those milestones laid out in the merger agreement and, as a result, Silicon Labs distributed certain shares of its stock held in escrow to Cirrus Logic in the first quarter of fiscal year 2006. Cirrus Logic sold these shares immediately upon receipt. Cirrus also recorded \$0.2 million for stock in Prudential Financial Inc. (“Prudential”) late during the fourth quarter of fiscal year 2006. This entire amount represented an unrealized gain recorded in other comprehensive income. Cirrus received these shares as a result of the demutualization of Prudential. When Prudential was a mutual company, Cirrus held certain insurance policies with them. As policyholders are the de facto owners of mutual insurance companies, upon demutualization, those policyholders receive stock such that their ownership interest in the company remains the same. The unrealized losses recorded in fiscal year 2006 and the unrealized gains reported in fiscal year 2005 were immaterial and represented less than 0.5% of the estimated fair value. The unrealized losses did not meet the criteria of other than temporary impairment under EITF 03-1.

During fiscal year 2005, we recognized a gain of \$0.8 million related to sale of Silicon Labs stock associated with the Cygnal transaction described above. In the first quarter of fiscal year 2005, we recognized a gain of \$0.7 million on the sale of all of the Company’s stock in Silicon Labs that was received as part of the original merger agreement between Cygnal and Silicon Labs. Total proceeds from the sale were \$1.2 million. In the fourth quarter of fiscal year 2005, Cirrus Logic received additional shares in Silicon Labs as a result of the milestones discussed above. Cirrus Logic sold these shares immediately and recognized a gain of \$0.1 million

In the fourth quarter of fiscal year 2004, we recognized a gain of \$2.0 million related to sale of investments we had in other publicly traded companies. During the second quarter of fiscal year 2004, we realized a gain of \$10.1 million related to our investment in SigmaTel, Inc.

2. Accounts Receivable, net

The following are the components of accounts receivable (in thousands):

	March 25, 2006	March 26, 2005
Gross accounts receivable	\$ 21,133	\$ 19,114
Less: Allowance for doubtful accounts	(196)	(521)
Accounts receivable, net	<u>\$ 20,937</u>	<u>\$ 18,593</u>

The following table summarizes the changes in the allowance for doubtful accounts (in thousands):

Balance, March 29, 2003	\$ (977)
Write-off of uncollectible accounts, net of recoveries	<u>281</u>
Balance, March 27, 2004	(696)
Write-off of uncollectible accounts, net of recoveries	<u>175</u>
Balance, March 26, 2005	\$ (521)
Write-off of uncollectible accounts, net of recoveries	<u>(70)</u>
Change in allowance for doubtful account estimate	<u>395</u>
Balance, March 25, 2006	<u>\$ (196)</u>

During the fourth quarter of fiscal year 2006, as a result of our change in our customer base, we modified our estimate for the distributor portion of the reserve for our allowance for doubtful accounts. In making this change in estimate, we recognized a \$0.4 million credit to bad debt expense, a component of both income from operations and net income. The effect of this change in estimate on earnings per share was negligible.

We were successful in collecting a portion of the Fujitsu receivable previously written off in fiscal year 2002 in the amount of \$46.8 million. In fiscal year 2006, we recorded a net credit to operating expenses of \$24.8 million as our litigation settlement was a recovery of bad debt previously recorded in a prior fiscal year. See Note 7 for further discussion of the litigation with Fujitsu.

In fiscal year 2004, we were successful in collecting the Western Digital receivable and we recorded a credit to operating expenses of \$45 million as our litigation settlement of which, \$26.5 million was a recovery of bad debt previously recorded in a prior fiscal year.

3. Non-Marketable Securities

On April 25, 2005, we announced our intentions to divest our digital video product line. On May 24, 2005, we signed a definitive agreement to sell our digital video product line to Magnum Semiconductor, Inc. (“Magnum”), a privately held company formed by an investment group led by Investcorp and August Capital. On June 30, 2005, we completed the sale of our digital video product line assets to Magnum. By selling the digital video product line assets, we are able to focus on our core analog, mixed-signal and embedded product lines for audio and industrial markets. As consideration for the sale of these assets, we received a minority ownership position in Magnum with a fair value of approximately \$7.9 million. As Magnum is not publicly traded and as Cirrus does not have significant influence with Magnum, we have accounted for this investment at cost. The investment in Magnum is our only cost method investment and, as of March 25, 2006, the carrying amount of this cost method investment remained at \$7.9 million. The assets sold were primarily comprised of \$1.0 million in current assets, \$0.8 in property and equipment and \$5.1 million in long-term assets, offset by \$0.3 million in assumed current liabilities.

We recognized a net gain on the sale of assets to Magnum during the second fiscal quarter of fiscal year 2006 of approximately \$0.8 million, which was recorded as a component of “*Restructuring and other, net.*” Included in the net gain was a contingent payment to the employees of Magnum of \$0.5 million related to the closing conditions of the agreement. Also, during the second quarter of fiscal year 2006, after the completion of the digital video product line asset sale to Magnum, we sold the remaining digital video product inventory to Magnum for \$1.9 million, which was approximately 5 percent above our cost. As of December 24, 2005, Magnum had paid for all of the shipped inventory.



4. Intangibles, net

The following information details the gross carrying amount and accumulated amortization of our intangible assets (in thousands):

	March 25, 2006		March 26, 2005	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Core technology	\$ 1,390	\$ (759)	\$ 8,290	\$ (6,521)
Existing technology	2,730	(2,686)	43,430	(38,723)
License agreements	440	(240)	1,940	(1,504)
Technology licenses	11,622	(9,531)	12,615	(8,748)
Trademarks	320	(320)	320	(313)
	<u>\$ 16,502</u>	<u>\$ (13,536)</u>	<u>\$ 66,595</u>	<u>\$ (55,809)</u>

In connection with our headcount reductions in fiscal year 2005 (see Note 10 for further detail), we recorded an impairment charge of \$5.0 million for the abandonment of certain computer aided design (“CAD”) and other software tools that will no longer be utilized. The assets were a component of the “*Technology Licenses*” group in the above table. Amortization expense for all intangibles in fiscal years 2006, 2005, and 2004 was \$3.5 million, \$17.1 million, and \$18.3 million, respectively. The large decrease in amortization from fiscal year 2005 to fiscal year 2006 was directly related to the sale of our digital video product line assets to Magnum Semiconductor. Specifically, we transferred acquired intangibles with a gross and net value of \$49.1 million and \$4.6 million, respectively, to Magnum as part of the sale. During fiscal year 2005, amortization on these assets totaled \$12.8 million whereas, in fiscal year 2006, amortization on these assets totaled \$0.7 million. See Note 4 for further details on the divestiture of our digital video product line assets.

The following table details the estimated aggregate amortization expense for all intangibles owned as of March 25, 2006 for each of the five succeeding fiscal years (in thousands):

For the year ended March 31, 2007	\$ 1,337
For the year ended March 29, 2008	1,045
For the year ended March 28, 2009	318
For the year ended March 27, 2010	248
For the year ended March 26, 2011	18

5. Commitments and Contingencies

*Facilities and Equipment Under Operating Lease Agreements*

We lease our facilities and certain equipment under operating lease agreements, some of which have renewal options. Certain of these arrangements provide for lease payment increases based upon future fair market rates. Our principal facilities, located in Austin, Texas, consists of approximately 214,000 square feet of leased space, which have leases that expire from fiscal year 2007 to fiscal year 2013, excluding renewal options. It includes our headquarters and engineering facility, which has 197,000 square feet and no escalating rent clauses.

The aggregate minimum future rental commitments under all operating leases for the following fiscal years are (in thousands):

	Facilities	Subleases	Net Facilities Commitments	Equipment Commitments	Total Commitments
2007	\$ 10,884	\$ 4,765	\$ 6,119	\$ 38	\$ 6,157
2008	9,536	2,962	6,574	11	6,585
2009	9,275	2,386	6,889	4	6,893
2010	5,206	937	4,269	4	4,273
2011	4,709	760	3,949	—	3,949
Thereafter	6,563	1,053	5,510	—	5,510
Total minimum lease payments	<u>\$ 46,173</u>	<u>\$ 12,863</u>	<u>\$ 33,310</u>	<u>\$ 57</u>	<u>\$ 33,367</u>

Total rent expense was approximately \$8.6 million, \$11.5 million, and \$13.9 million, for fiscal years 2006, 2005, and 2004, respectively. Sublease rental income was \$4.6 million, \$5.8 million, and \$5.4 million, for fiscal years 2006, 2005, and 2004, respectively.



Further, we recorded a charge to operating expense during fiscal year 2006 in the amount of \$4.4 million for our Austin, Texas facility and during fiscal year 2004 we recorded \$0.4 million for our Raleigh, North Carolina facility and \$1.4 million for our Fremont, California facility. The amounts were determined when a tenant broke their sublease with us in our Raleigh, North Carolina property and we determined we would be unable to sublease our Fremont, California property as quickly as previously expected due to the depressed commercial real estate market in the area. As of March 25, 2006, a total of \$4.9 million related to these vacated leases remained accrued. Where appropriate, these amounts are classified as either long-term or short-term. These amounts are included in the table above, as well as the \$6.5 million as of March 25, 2006 for the restructuring facility costs that are discussed in greater detail in Note 10.

Wafer, Assembly and Test Purchase Commitments

We rely on third-party foundries for our wafer manufacturing needs. As of March 25, 2006, we had agreements with multiple foundries for the manufacture of wafers. None of these foundry agreements have volume purchase commitments or “take or pay” clauses. The agreements provide for purchase commitments based on purchase orders. Cancellation fees or other charges may apply and are generally dependent upon whether wafers have been started or the stage of the manufacturing process at which the notice of cancellation is given. As of March 25, 2006, we had foundry commitments of \$6.3 million.

In addition to our wafer supply arrangements, we contract with third-party assembly vendors to package the wafer die into finished products. Assembly vendors provide fixed-cost-per-unit pricing, as is common in the semiconductor industry. We had non-cancelable assembly purchase orders with numerous vendors totaling \$0.5 million at March 25, 2006.

We have transitioned all of our test services to outside third party contractors. Test vendors provide fixed-cost-per-unit pricing, as is common in the semiconductor industry. Our total non-cancelable commitment for outside test services as of March 25, 2006 was \$8.3 million. Included in this amount is a manufacturing services agreement between Cirrus and Premier Semiconductor, LLC (“Premier”) dated March 25, 2005, Cirrus has payment obligations to fulfill with regards to the chip testing services performed by Premier for Cirrus. This represents a commitment for test services from Premier of \$3.1 million in both fiscal years 2007 and 2008, along with a commitment of \$1.0 million in fiscal year 2009.

Other open purchase orders, including those for boards, sorting, and serialization, amounted to approximately \$0.6 million at March 25, 2006.

Other Contingencies

On June 3, 2003, the Inland Revenue Authority of Singapore (“IRAS”) notified us that it disagreed with our classification of sales to certain disk drive customers from May 1997 through March 1998, resulting in additional goods and services taxes (“GST”) owed by us. After a thorough review of these matters by both the Company and representatives from IRAS, we reached an agreement in the third quarter of 2005 on this and all other audit issues covering years 1997 through 2000. As a result, instead of incurring a liability, the Company received \$2.3 million for reclaimed GST collected by vendors during the years 1997 through 2000. This amount was reported as a reduction of our selling, general and administrative expenses during fiscal year 2005.

**7. Legal Matters**

Fujitsu

On October 19, 2001, we filed a lawsuit against Fujitsu, Ltd. (“Fujitsu”) in the United States District Court for the Northern District of California. We asserted claims for breach of contract and anticipatory breach of contract and we sought damages in excess of \$46 million. The basis for our complaint was Fujitsu’s refusal to pay for hard disk drive-related chips delivered to and accepted by it in fiscal year 2002. On December 17, 2001, Fujitsu filed an answer and a counterclaim. Fujitsu alleged claims for breach of contract, breach of warranty, quantum meruit/equitable indemnity and declaratory relief. The basis for Fujitsu’s counterclaim was the allegation that certain chips that we sold to Fujitsu were defective and allegedly caused Fujitsu’s hard disk drives to fail.

On December 5, 2003, for reasons related to the potential lack of jurisdiction for certain claims in federal district court, Fujitsu filed a complaint in California state court alleging claims substantially similar to those filed against us in district court and, in addition, alleging fraud and other related claims against Amkor and Sumitomo. On December 23, 2003, we filed a cross-complaint in California state court alleging the same claims against Fujitsu

as we alleged in federal district court and further alleging fraud and other related claims against Amkor and Sumitomo based on their alleged knowledge that the molding compound used in the packaging materials sold to us was defective.

On April 28, 2005, before the rescheduled trial date, Cirrus Logic, Fujitsu, Amkor, Sumitomo, and Cirrus Logic’s insurance carriers reached an agreement through an arbitration process to settle and release all pending claims related to the alleged failure of certain semiconductor ICs sold by Cirrus Logic to Fujitsu. These releases included releases between our insurance carriers and us for any claims related to the litigation with Fujitsu. As part of the settlement, Fujitsu received \$45 million from Sumitomo, \$40 million from Amkor, and \$40 million from Cirrus Logic’s insurance carriers. Fujitsu paid us a lump sum in the amount of \$25 million. The final settlement documents were completed on June 10, 2005, and payment was received on June 16, 2005. Part of the \$25 million received from the settlement represented a recovery of bad debt expense recorded in fiscal year 2002 of approximately \$46.8 million. The \$25 million received was partially offset by approximately \$0.2 million in outside fees associated with this transaction. The net amount was recorded as a separate line item as a component of operating expenses during the first quarter of fiscal year 2006.

St. Paul Fire and Marine Insurance Company

On June 9, 2004, we filed a complaint for declaratory relief against St. Paul Fire and Marine Insurance Co. (“St. Paul”) in the United States District Court, Northern District of California. Specifically, the complaint seeks a judicial determination and declaration that the Technology Commercial General Liability Protection (“CGL”) coverage under an insurance policy issued to us by St. Paul provides Cirrus Logic with insurance coverage for Cirrus Logic’s defense of claims brought by Fujitsu in the previously referenced matter. Pursuant to our CGL policy, the costs and expenses associated with defending our lawsuit against Fujitsu would be covered, but would not reduce the policy coverage limits. On August 23, 2004, St. Paul answered the complaint, denying that it was obligated to defend us under the CGL policy.

Based on the settlement and releases agreed to by the insurance carriers as set forth in the Fujitsu matter, we believe this matter has been resolved between Cirrus Logic and St. Paul. On August 2, 2005, the district court dismissed the case without prejudice.

Silvaco Data Systems

On December 8, 2004, Silvaco Data Systems (“Silvaco”) filed suit against us, and others, alleging misappropriation of trade secrets, conversion, unfair business practices, and civil conspiracy. Silvaco’s complaint stems from a trade secret dispute between Silvaco and a software vendor, Circuit Semantics, Inc., who supplies us with certain software design tools. Silvaco alleges that our use of Circuit Semantic’s design tools infringes upon Silvaco’s trade secrets and that we are liable for compensatory damages in the sum of \$10 million. Silvaco has not indicated how it will substantiate this amount of damages and we are unable to reasonably estimate the amount of damages, if any.

On January 25, 2005, we answered Silvaco’s complaint by denying any wrong-doing. In addition, we filed a cross-complaint against Silvaco alleging breach of contract relating to Silvaco’s refusal to provide certain technology that would enable us to use certain unrelated software tools.

We intend to defend the lawsuit vigorously. In addition, Circuit Semantics is obligated to defend and indemnify us pursuant to our license agreement with them for the software. However, we cannot predict the ultimate outcome of this litigation and we are unable to estimate any potential liability we may incur.

Facilities Under Operating Lease Agreements

We lease our facilities under operating lease agreements. Our principal facility, located in Austin, Texas, is 197,000 square feet and houses our headquarters and engineering facility. As originally drafted, the lease agreement for this facility included a potential obligation to enter into another lease agreement for a period of 10 years for an additional 64,000 square feet in a new building to be built on property next to our current facility. This obligation was contingent upon construction beginning on the new facility before November 10, 2004. On September 14, 2004, our landlord provided us notice that it had elected to construct the new building.

On November 12, 2004, we filed suit against our landlord in the state district court of Travis County, Texas seeking declaratory relief as to our obligations under the current operating lease agreement. Specifically, we sought a declaration that we had no obligation to lease an additional two floors of space because the landlord did not commence construction of the new facility before November 10, 2004.

On November 30, 2005, we entered into a Settlement Agreement and Release with our landlord for the purpose of settling all claims associated with the suit. The settlement provided mutual releases associated with any obligations by either party with respect to leasing additional space in a new building. As part of the settlement, we paid our landlord \$150,000 and agreed to amend the current lease such that we are now bound to maintain our Letter of Credit in the amount of \$5.1 million until November 2011, at which point the requirement decreases to \$2.6 million with the Letter of Credit ceasing in May 2012. This modifies the original letter of credit in that the new letter of credit does not decline until November 2011. All claims and counterclaims in the suit were dismissed on December 13, 2005.

Other Claims

From time to time, other various claims, charges and litigation are asserted or commenced against us arising from, or related to, contractual matters, intellectual property, employment disputes, as well as other issues. Frequent claims and litigation involving these types of issues are not uncommon in the IC industry. As to any of these claims or litigation, we cannot predict the ultimate outcome with certainty.

**8. License Agreement Amendment**

During the fourth quarter of fiscal year 2006, we realized a gain of \$7 million resulting from a one-time cash receipt associated with an amendment to an existing licensing agreement, in which certain rights to Cirrus Logic were terminated from a prior cross-license agreement. The proceeds were recorded as a separate line item on the statement of operations in operating expenses under the heading “*License agreement amendment.*”

**9. Patent Agreement and Settlements, net**

During the third quarter of fiscal year 2005, we released \$0.6 million in legal fees originally accrued in connection with the transaction with Broadcom Corporation for certain U.S. and non-U.S. patents. The excess accrual was related to differences from our original estimate and the actual fees incurred related to this transaction.

On August 11, 2003, we entered into a Patent Sale, Assignment and Cross-License Agreement with NVIDIA and NVIDIA International, Inc. to settle certain pending litigation. As a result of this agreement, NVIDIA paid us \$9 million on August 11, 2003. On September 23, 2003, we entered into a Patent Sale, Assignment and Cross-License Agreement with ATI and ATI International SRL to settle certain additional pending litigation. As a result of this agreement, ATI paid us \$9 million on October 2, 2003. Under the terms of a contingency fee arrangement, we were obligated to pay outside counsel a percentage of these settlements. During the fourth quarter of fiscal year 2004, we received a net \$17 million related to a transaction with Broadcom Corporation for certain U.S. and non-U.S. patents. These items were recorded as a separate line item on the statement of operations in operating expenses under the heading “*Patent agreement and settlements, net.*”

**10. Restructuring Costs and Other**

During fiscal year 2006, we recorded a total net restructuring charge of \$3.1 million in operating expenses for severance and facility related items primarily associated with workforce reductions related to the sale of the digital video product line assets and our revised sublease assumption for a previously exited facility. This action affected approximately 10 individuals worldwide and resulted in a net charge of approximately \$0.4 million. In connection with the digital video product line asset sale, we ceased using certain leased office space in our Fremont, California location. Accordingly, we recorded a restructuring charge of \$1.1 million related to the exit from this facility. Partially offsetting the restructuring charge was \$0.8 million related to the gain on the digital video product line asset sale. For further detail, see Note 4, “*Non Marketable Securities.*”

The following table sets forth the activity in our fiscal year 2006 restructuring accrual (in thousands)

	Severance	Facilities Abandonment	Total
Balance, March 26, 2005	\$ —	\$ —	\$ —
Fiscal year 2006 provision	412	1,093	1,505
Cash payments, net	(412)	(353)	(765)
Balance, March 25, 2006	<u>\$ —</u>	<u>\$ 740</u>	<u>\$ 740</u>

During the fiscal year 2005, we recorded a charge of \$2.9 million for severance related items associated with workforce reductions, which affected approximately 100 individuals worldwide in various job functions. In connection with these reductions, we also recorded an impairment charge of \$5.0 million for the abandonment of certain computer aided design (“CAD”) and other software tools that will no longer be utilized. In addition, we recorded a net \$1.4 million charge due to facility related consolidations, primarily in Colorado and California. These facility charges included a benefit of \$0.5 million resulting from a lease buyout that we completed in the second quarter of fiscal year 2005. The cost for this leased facility had been partially accrued when a portion of the space was vacated during our fiscal year 2002 workforce reductions. During the first quarter of fiscal year 2005, the remaining cost was accrued when the leased space was completely vacated. The total buyout amount of \$4.3 million was less than the recorded liability and hence, we recognized the benefit of \$0.5 million from this transaction against the restructuring expenses incurred during the second quarter of fiscal year 2005. Additionally, we recorded an impairment charge of \$0.1 million for property and equipment associated with our Pune, India facility closure. Our severance commitments for the fiscal year 2005 action were completed during fiscal year 2006.

The following table sets forth the activity in our fiscal year 2005 restructuring accrual (in thousands)

	Severance	Facilities Abandonment	Contract Termination	Total
Balance, March 27, 2004	\$ —	\$ —	\$ —	\$ —
Fiscal year 2005 provision	2,856	1,336	21	4,213
Cash payments, net	(2,533)	(1,336)	(21)	(3,890)
Balance, March 26, 2005	\$ 323	\$ —	\$ —	\$ 323
Fiscal year 2006 provision	—	—	—	—
Cash payments, net	(323)	—	—	(323)
Balance, March 25, 2006	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

During fiscal year 2004, we recorded a charge of \$1.7 million in operating expenses primarily related to severance for headcount reductions. We eliminated approximately 130 positions from various job classes and functions during fiscal year 2004, with the majority of the reductions in Austin, Texas, primarily in selling, general and administrative functions and in our Colorado operations, primarily in engineering. Included in this reduction was the elimination of 64 of approximately 120 test operation positions and a total severance charge of approximately \$0.4 million as part of our previously announced plan to reduce headcount associated with our outsourcing agreement with ChipPAC. Also during fiscal year 2004, we recorded a restructuring charge of \$6.2 million in operating expenses for facility consolidations primarily in California and Texas, an impairment charge of \$1.5 million for property and equipment associated with our Austin, Texas facility consolidation and an impairment charge of \$0.2 million for property and equipment associated with our Tokyo, Japan facility consolidation. During fiscal year 2005, we re-assessed our sublease assumptions related to our restructured facilities and determined that an additional \$0.2 million was required due to our inability to sublease certain facilities. During fiscal year 2006, due to the continued depressed real estate market, we recorded an additional charge of \$1.8 million for certain leases in California related to our fiscal year 2004 restructuring activity, due to a change in our sublease assumptions. Our facility commitments for the fiscal year 2004 actions will be completed during fiscal year 2013.

The following table sets forth the activity in our fiscal year 2004 restructuring accrual (in thousands):

	Severance	Facilities Abandonment	Total
Balance, March 29, 2003	\$ —	\$ —	\$ —
Fiscal year 2004 provision	1,688	6,205	7,893
Cash payments, net	(1,514)	(908)	(2,422)
Balance, March 27, 2004	\$ 174	\$ 5,297	\$ 5,471
Fiscal year 2005 provision	—	178	178
Cash payments, net	(174)	(944)	(1,118)

	<b>Severance</b>	<b>Facilities Abandonment</b>	<b>Total</b>
Balance, March 26, 2005	\$ —	\$ 4,531	\$4,531
Fiscal year 2006 provision	—	1,833	1,833
Cash payments, net	—	(954)	(954)
Balance, March 25, 2006	<u>\$ —</u>	<u>\$ 5,410</u>	<u>\$5,410</u>

During fiscal year 2003, we eliminated approximately 290 employee positions worldwide, or approximately 25 percent of the total workforce, from various business functions and job classes as a continuation of our fiscal year 2002 effort to further reduce costs and align operating expenses with our revenue model. In fiscal year 2003, we recorded a restructuring charge of \$3.8 million in operating expenses for costs associated with these workforce reductions, a non-cash charge of \$2.5 million to fully expense certain intangible, fixed and other assets that would no longer be used as a result of our workforce reductions and \$0.8 million related to facility consolidations. As part of these restructuring activities, we closed our wireless product line, acquired in October 2001 in connection with our acquisition of ShareWave and the associated El Dorado Hills, California office. We completed this action during fiscal year 2006.

The following table sets forth the activity in our fiscal year 2003 restructuring accrual (in thousands):

	<b>Severance</b>	<b>Facilities Abandonment</b>	<b>Total</b>
Balance, March 29, 2003	\$ 141	\$ 504	\$ 645
Fiscal year 2004 provision	(95)	32	(63)
Cash payments, net	(46)	(269)	(315)
Balance, March 27, 2004	\$ —	\$ 267	\$ 267
Fiscal year 2005 provision	—	(25)	(25)
Cash payments, net	—	(42)	(42)
Balance, March 26, 2005	\$ —	\$ 200	\$ 200
Fiscal year 2006 reversal	—	(200)	(200)
Cash payments, net	—	—	—
Balance, March 25, 2006	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

The following table sets forth the activity in our fiscal year 2002 restructuring accrual (in thousands). During fiscal year 2004, we modified our sublease assumptions due to the depressed real estate market and took an additional charge of \$121 thousand related to some of these restructured facilities. We completed this action during fiscal year 2006.

The following table sets forth the activity in our fiscal year 2002 restructuring accrual (in thousands):

	<b>Severance</b>	<b>Facilities Abandonment</b>	<b>Total</b>
Balance, March 29, 2003	\$ —	\$ 4,101	\$ 4,101
Fiscal year 2004 provision	—	121	121
Cash payments, net	—	(557)	(557)
Balance, March 27, 2004	\$ —	\$ 3,665	\$ 3,665
Fiscal year 2005 provision	—	—	—
Cash payments, net	—	(3,610)	(3,610)
Balance, March 26, 2005	\$ —	\$ 55	\$ 55
Fiscal year 2006 provision	—	—	—
Cash payments, net	—	(55)	(55)
Balance, March 25, 2006	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

The following table sets forth the activity in our fiscal year 1999 restructuring accrual during fiscal year 2006 (in thousands). The remaining balance for the fiscal year 1999 restructuring relates to a contractual obligation with a tenant to whom we have subleased space that will expire in fiscal year 2007.

	Severance	Facilities Abandonment	Total
Balance, March 29, 2003	\$ —	\$ 492	\$ 492
Fiscal year 2004 provision	—	(95)	(95)
Amounts utilized	—	—	—
Balance, March 27, 2004	\$ —	\$ 397	\$ 397
Fiscal year 2005 provision	—	—	—
Amounts utilized	—	—	—
Balance, March 26, 2005 and March 25, 2006	\$ —	\$ 397	\$ 397

As of March 25, 2006, we have a remaining restructuring accrual for all of our past restructurings of \$6.5 million, primarily related to net lease expenses that will be paid over the respective lease terms through fiscal year 2013, along with other anticipated lease termination costs. We have classified the short-term portion of our restructuring activities as “*Other accrued liabilities*.”

11. Employee Benefit Plans

We have a 401(k) Profit Sharing Plan (the “Plan”) covering substantially all of our qualifying domestic employees. Under the Plan, employees may elect to contribute any percentage of their annual compensation up to the annual IRS limitations. We match 50 percent of the first 6 percent of the employees’ annual contribution to the plan. During fiscal years 2006, 2005, and 2004, we made matching employee contributions for a total of approximately \$0.8 million, \$0.9 million, and \$1.2 million, respectively.

12. Stockholders’ Equity

Employee Stock Purchase Plan

In March 1989, we adopted the 1989 Employee Stock Purchase Plan (“ESPP”). As of March 25, 2006, 0.9 million shares of common stock were reserved for future issuance under this plan. During fiscal years 2006, 2005, and 2004, we issued 339,000, 422,000, and 362,000 shares, respectively, under the ESPP. In fiscal year 2006, the Board of Directors of the Company approved an amendment to the 1989 Employee Stock Plan (“ESPP”) eliminating the six-month look back feature of the plan as well as modifying the plan to reduce the discount to 5%. This modification to the plan was effective for all ESPP options effective in calendar year 2006.

Preferred Stock

On May 24, 2005, the Board of Directors of the Company approved an amendment (the “Amendment”) to the Amended and Restated Rights Agreement, dated as of February 17, 1999, between the Company and BankBoston, N.A., as Rights Agent. The Amendment accelerates the termination of the Company’s preferred stock purchase rights (the “Rights”) from the close of business on May 4, 2008 to the close of business on May 26, 2005. On May 25, 2005, the Chief Financial Officer (“CFO”) signed a Certificate of Elimination that was subsequently filed with the Secretary of State of the State of Delaware which had the effect of eliminating from the Company’s Certificate of Incorporation all references to the Series A Participating Preferred Stock of the Company and returning these shares to the status of undesignated shares of authorized Preferred Stock of the Company. We have not issued any of the authorized 1.5 million shares of Series A Participating Preferred Stock.

Stock Option Plans

We have various stock option plans (the “Option Plans”) under which officers, employees, non-employee directors and consultants may be granted qualified and non-qualified options to purchase shares of our authorized but not issued common stock. Options are generally priced at the fair market value of the stock on the date of grant. Options granted to employees are exercisable upon vesting, generally over four years and certain options granted to non-employee directors are exercisable upon grant. Options expire no later than ten years from the date of grant.

As of March 25, 2006, approximately 29.0 million shares of common stock were reserved for issuance under the Option Plans.

Information regarding stock option activity is as follows (in thousands, except per share amounts):

	Options Available for Grant	Outstanding Options	
		Number	Weighted Average Exercise Price
Balance, March 29, 2003	13,169	8,840	\$ 13.21
Shares authorized for issuance	3,380	—	—
Option plans terminated	(671)	—	—
Options granted	(4,923)	4,923	5.16
Options exercised	—	(247)	4.29
Repurchase and cancellation of unvested shares	11	—	—
Options cancelled	2,164	(2,164)	13.13
Options expired	—	(315)	—
Balance, March 27, 2004	13,130	11,037	\$ 9.83
Shares authorized for issuance	3,376	—	—
Options granted	(3,463)	3,463	5.43
Options exercised	—	(390)	3.34
Options cancelled	1,680	(1,680)	9.89
Options expired	—	(106)	—
Balance, March 26, 2005	14,723	12,324	\$ 8.79
Shares authorized for issuance	3,408	—	—
Options granted	(2,446)	2,446	7.46
Options exercised	—	(1,270)	3.75
Options cancelled	1,370	(1,370)	9.76
Options expired	—	(170)	—
Balance, March 25, 2006	17,055	11,960	\$ 8.93

The following table summarizes information regarding outstanding and exercisable options as of March 25, 2006:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number (in thousands)	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable (in thousands)	Weighted Average Exercise Price
\$ 0.19 - \$ 2.60	362	6.83	\$ 2.39	225	\$ 2.29
\$ 2.61 - \$ 3.40	897	7.24	3.40	620	3.40
\$ 3.41 - \$ 5.16	2,412	8.4	4.86	925	4.74
\$ 5.17 - \$ 6.97	1,538	7.49	6.57	912	6.59
\$ 6.98 - \$ 9.00	3,504	8.4	7.69	1,440	7.68
\$ 9.01 - \$14.33	1,205	2.91	10.93	1,205	10.93
\$14.34 - \$16.69	1,210	5.00	15.85	1,210	15.85
\$16.70 - \$44.50	832	4.79	26.2	673	28.31
	11,960	7.00	\$ 8.93	7,210	\$ 10.47

As of March 26, 2005 and March 27, 2004, the number of options exercisable was 6.9 million and 4.8 million, respectively.

Stock-Based Compensation

In accordance with the requirements of the disclosure-only alternative of SFAS 123, set forth below is a pro forma illustration of the effect on net income (loss) and net income (loss) per share information for the years 2004 through 2006, and all, computed as if we had valued stock-based awards to employees using the Black-Scholes option pricing model instead of the applying the guidelines provided by APB 25. In addition, the tables below present the impact of the additional stock-based compensation expense-related adjustments on our previously-reported pro forma information illustrations for the stated periods:

	Twelve Months Ended		
	March 25, 2006	March 26, 2005	March 27, 2004
	Previously Filed	Previously Filed	Previously Filed
Net income (loss) as reported	\$ 54,145	\$ (13,388)	\$ 46,503
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effects	15	497	1,377
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of tax related effects	(7,880)	(11,966)	(14,536)
Proforma net income (loss)	<u>\$ 46,280</u>	<u>\$ (24,857)</u>	<u>\$ 33,344</u>
Basic net income (loss) per share as reported	\$ 0.63	\$ (0.16)	\$ 0.55
Proforma basic net income (loss) per share	\$ 0.54	\$ (0.29)	\$ 0.40
Diluted net income (loss) per share as reported	\$ 0.62	\$ (0.16)	\$ 0.54
Proforma diluted net income (loss) per share	\$ 0.53	\$ (0.29)	\$ 0.39

Adjustments:	Twelve Months Ended		
	March 25, 2006	March 26, 2005	March 27, 2004
Net income (loss) as reported	\$ (1,719)	\$ (108)	\$ (3,655)
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effects	1,719	108	3,655
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of tax related effects	(153)	(674)	(1,317)
Proforma net income (loss)	<u>\$ (153)</u>	<u>\$ (674)</u>	<u>\$ (1,317)</u>
Basic net income (loss) per share as reported	\$ (0.02)	\$ -	\$ (0.04)
Proforma basic net income (loss) per share	\$ -	\$ -	\$ (0.02)
Diluted net income (loss) per share as reported	\$ (0.02)	\$ -	\$ (0.04)
Proforma diluted net income (loss) per share	\$ -	\$ -	\$ (0.02)

	Twelve Months Ended		
	March 25, 2006	March 26, 2005	March 27, 2004
	Restated	Restated	Restated
Net income (loss) as restated	\$ 52,426	\$ (13,496)	\$ 42,848
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effects	1,734	605	5,032
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of tax related effects	(8,033)	(12,640)	(15,853)
Proforma net income (loss) as restated	<u>\$ 46,127</u>	<u>\$ (25,531)</u>	<u>\$ 32,027</u>
Basic net income (loss) per share as restated	\$ 0.61	\$ (0.16)	\$ 0.51
Proforma basic net income (loss) per share as restated	\$ 0.54	\$ (0.30)	\$ 0.38
Diluted net income (loss) per share as restated	\$ 0.60	\$ (0.16)	\$ 0.50
Proforma diluted net income (loss) per share as restated	\$ 0.53	\$ (0.30)	\$ 0.37

For purposes of pro forma disclosures, the estimated fair value of the options are amortized to expense over the vesting period (for options) and the six-month purchase period (for stock purchases under the ESPP) using the straight-line method.



As a result of recent regulatory guidance, including SEC Staff Accounting Bulletin No. 107 (“SAB No. 107”) and in anticipation of the impending effective date of SFAS No. 123(R), we reevaluated the assumptions we use to estimate the value of employee stock options and shares issued under our employee stock purchase plan, beginning with stock options granted and shares issued under our employee stock purchase plan in our second quarter of fiscal year 2006. Our management determined that the use of implied volatility is expected to be more reflective of market conditions and therefore, can reasonably be expected to be a better indicator of expected volatility than historical volatility and as a result, we began using the implied volatility methodology.

We estimated the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model using a dividend yield of zero and the following additional weighted-average assumptions:

	March 25, 2006	March 26, 2005	March 27, 2004
Employee Option Plans:			
Expected stock price volatility	41.67%	96.80%	97.47%
Risk-free interest rate 2.2	4.1%	3.9%	2.2%
Expected lives (in years)	3.0	3.8	5.3
Employee Stock Purchase Plan:			
Expected stock price volatility	49.05%	85.10%	97.47%
Risk-free interest rate	2.7%	1.7%	1.0%
Expected lives (in years)	0.5	0.5	0.5

Using the Black-Scholes option valuation model, the weighted average estimated fair values of employee stock options granted in fiscal years 2006, 2005, and 2004, were \$2.36, \$3.60, and \$3.82, respectively. The weighted average estimated fair values for purchase rights granted under the ESPP for fiscal years 2006, 2005, and 2004 were \$1.57, \$2.25, and \$2.47, respectively. In fiscal year 2004, the weighted average of grant date fair value of in-the-money grants was \$4.57. Total fair value for in-the-money grants for fiscal year 2005 and 2006 was immaterial.

*Rights Plan*

In May 1998, the Board of Directors declared a dividend of one preferred share purchase right (a “Right”) for each share of common stock outstanding held as of May 15, 1998. Each Right would have entitled stockholders to purchase one one-hundredth of a share of our Series A Participating Preferred Stock at an exercise price of \$60. The Rights only became exercisable in certain limited circumstances following the tenth day after a person or group announces acquisitions of or tender offers for 15 percent or more of our common stock. For a limited period following the announcement of any such acquisition or offer, the Rights were redeemable by us at a price of \$0.01 per Right. If the Rights were not redeemed, each Right then entitled the holder to purchase common stock having the value of twice the exercise price. For a limited period after the Rights were exercisable, each Right, at the discretion of the Board, could be exchanged for one share of common stock per Right. The Rights were originally scheduled to expire in fiscal year 2009.

On May 24, 2005, the Board of Directors of the Company approved an amendment to the Amended and Restated Rights Agreement, dated as of February 17, 1999, between the Company and BankBoston, N.A., as Rights Agent. The Amendment accelerates the termination of the Company’s preferred stock purchase rights from the close of business on May 4, 2008 to the close of business on May 26, 2005. On May 25, 2005, the CFO signed a Certificate of Elimination that was subsequently filed with the Secretary of State of the State of Delaware which had the effect of eliminating from the Company’s Certificate of Incorporation all references to the Series A Participating Preferred Stock of the Company and returning these shares to the status of undesignated shares of authorized Preferred Stock of the Company, thereby terminating the Rights plan.

**13. Accumulated Other Comprehensive Income (Loss)**

Our accumulated other comprehensive income (loss) is comprised of foreign currency translation adjustments and unrealized gains and losses on investments classified as available-for-sale. The foreign currency translation adjustments are not currently adjusted for income taxes because they relate to indefinite investments in non-U.S. subsidiaries that have since changed from a foreign functional currency to a U.S dollar functional currency.

The following table summarizes the changes in the components of accumulated other comprehensive income (loss) (in thousands):

	Foreign Currency	Unrealized Gains (Losses) on Securities	Total
Balance, March 29, 2003	\$ (819)	\$ 282	\$ (537)
Current-period activity	49	317	366
Balance, March 27, 2004	(770)	599	(171)
Current-period activity	-	(982)	(982)
Balance, March 26, 2005	(770)	(383)	(1,153)
Current-period activity	-	263	263
Balance, March 25, 2006	<u>\$ (770)</u>	<u>\$ (120)</u>	<u>\$ (890)</u>

14. Income Taxes

Income (loss) before income taxes consisted of (in thousands):

	March 25, 2006 Restated	March 26, 2005 Restated	March 27, 2004 Restated
United States	\$ 45,230	\$(34,254)	\$ 36,259
Non-U.S	161	(31)	(470)
	<u>\$ 45,391</u>	<u>\$(34,285)</u>	<u>\$ 35,789</u>

The benefit for income taxes consists of (in thousands):

	March 25, 2006	March 26, 2005	March 27, 2004
Current:			
Federal	\$ —	\$(15,247)	\$ —
State	—	(5)	(7,211)
Non-U.S	(6,695)	(5,537)	152
Total Current Tax Benefit	<u>\$ (6,695)</u>	<u>\$(20,789)</u>	<u>\$ (7,059)</u>
Deferred:			
Non-U.S	\$ (340)	\$ —	\$ —
Total Deferred Tax Benefit	(340)	—	—
Total Tax Benefit	<u>\$ (7,035)</u>	<u>\$(20,789)</u>	<u>\$ (7,059)</u>

The provision (benefit) for income taxes differs from the amount computed by applying the statutory federal rate to pretax income (loss) as follows (in percentages):

	March 25, 2006 Restated	March 26, 2005 Restated	March 27, 2004 Restated
Expected income tax provision (benefit) at the US federal statutory rate	35.0	(35.0)	35.0
Net operating loss and future deductions not currently benefited	—	34.9	—
Utilization of net operating losses and deferred tax assets not previously recognized	(34.0)	—	(35.6)
Reversals of previously accrued taxes and tax refunds	(14.8)	(62.0)	(20.1)
Unbenefited non-U.S. losses	—	0.6	1.2
Other	(1.7)	0.9	(0.2)
Benefit for income taxes	<u>(15.5)</u>	<u>(60.6)</u>	<u>(19.7)</u>

Significant components of our deferred tax assets and liabilities are (in thousands):

	March 25, 2006 Restated	March 26, 2005 Restated
Deferred tax assets:		
Inventory valuation	\$ 3,885	\$ 11,840
Accrued expenses and allowances	5,546	23,689
Net operating loss carryforwards	173,488	168,859

	March 25, 2006 Restated	March 26, 2005 Restated
Research and development tax credit carryforwards	35,143	34,570
State investment tax credit carryforwards	1,088	1,467
Capitalized research and development	49,736	48,312
Depreciation and Amortization	4,364	2,837
Other	10,459	9,867
Total deferred tax asset	\$ 283,709	\$ 301,441
Valuation allowance for deferred tax assets	(283,369)	(301,435)
Net deferred tax assets	\$ 340	\$ 6
Deferred tax liabilities:		
Other	\$ —	\$ 6
Total deferred tax liabilities	—	6
Total net deferred tax assets	\$ 340	\$ —

We did not record any additional income tax benefit or expense as a result of our restatement. For each period presented, we provided a full valuation allowance on the amount of the stock based compensation deduction and, therefore, we did not receive any tax benefit for any additional stock based compensation amounts recorded.

The valuation allowance decreased by \$18.1 million in fiscal year 2006 and increased by \$132.7 million in fiscal year 2005. During fiscal year 2006, we recorded nonrecurring tax benefits totaling \$6.7 million that consisted of the reversal of prior year non-U.S. tax liabilities. These reversals were due to the expiration of the statute of limitations for years in which certain potential non-U.S. tax liabilities existed. At March 25, 2006, we had federal net operating losses carryforwards of \$465.8 million. Of that amount, \$75.4 million relates to companies we acquired during fiscal year 2002 and are, therefore, subject to certain limitations under Section 382 of the Internal Revenue Code. In addition, approximately \$27.1 million of the federal net operating loss is attributable to employee stock option deductions, the benefit from which will be allocated to additional paid-in capital rather than current earnings if subsequently realized. We have net operating losses in various states that total \$126.4 million. The federal net operating loss carryforwards expire in fiscal years 2009 through 2026. The state net operating loss carryforwards expire in fiscal years 2007 through 2026. We also have non-U.S. net operating losses of \$3.2 million that do not expire.

There are federal research and development credit carryforwards of \$20.4 million that expire in fiscal years 2007 through 2026. There are \$14.7 million of state research and development credits. Of that amount, \$3.0 million will expire in fiscal years 2021 through 2026. The remaining \$11.7 million of state research and development credits are not subject to expiration. The state investment credits of \$1.1 million will expire in fiscal years 2007 through 2010.

The American Jobs Creation Act of 2004 (the Act) creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85% dividends-received deduction for certain dividends from controlled non-U.S. corporations. We completed our evaluation of the repatriation provision of the Act and concluded that we will not benefit from it due to the limitations it places on net operating loss carryforwards and credits. Therefore, we have not recognized any additional income tax expense or benefit as a result of the repatriation provision.

We have approximately \$5.8 million of cumulative undistributed earnings in certain non-U.S. subsidiaries. We have not recognized a deferred tax liability on these undistributed earnings because the Company currently intends to reinvest these earnings in operations outside the U.S. The unrecognized deferred tax liability on these earnings is approximately \$2.1 million. With our current tax attributes, if the earnings were distributed, we would most likely not accrue any additional income tax expense because this income would be offset by our net operating loss carryforwards and other future deductions.

Our taxes payable balance is comprised primarily of tax contingencies that are recorded to address exposures involving tax positions we have taken that could be challenged by taxing authorities. These exposures result from the varying application of statutes, rules, regulations, and interpretations. Our tax contingencies are established based on past experiences and judgments about potential actions by taxing jurisdictions. Our tax contingencies relate to transfer pricing positions we have taken in a variety of countries in which we operate. The ultimate resolution of these matters may be materially greater or less than the amount that we have accrued.

### 15. Segment Information

We are a premier supplier of high-precision analog and mixed-signal ICs for a broad range of consumer, professional, and industrial markets. We develop and market ICs and embedded software used by original equipment manufacturers. We also provide complete system reference designs based on our technology that enable our customers to bring products to market in a timely and cost-effective manner. We determine our operating segments in accordance with Statement of Financial Accounting Standard No. 131 (“SFAS 131”), “*Disclosures about Segments of an Enterprise and Related Information.*” Our chief executive officer (“CEO”) has been identified as the chief operating decision maker as defined by SFAS 131.

Our CEO receives and uses enterprise-wide financial information to assess financial performance and allocate resources, rather than detailed information at a product line level. Additionally, our product lines have similar characteristics and customers. They share operations support functions such as sales, public relations, supply chain management, various research and development and engineering support, in addition to the general and administrative functions of human resources, legal, finance and information technology. As of March 25, 2006, we have one operating segment with three different product lines.

Our revenue by product line is as follows (in thousands):

	<u>March 25, 2006</u>	<u>March 26, 2005</u>	<u>March 27, 2004</u>
Mixed-signal audio products	\$95,384	\$96,083	\$97,871
Embedded products	52,258	46,645	46,389
Industrial products	34,771	34,109	26,193
Video products	11,281	18,063	24,419
Other products	—	—	1,466
Total	<u>\$193,694</u>	<u>\$194,900</u>	<u>\$196,338</u>

On June 30, 2005, we completed the sale of our digital video product line assets to Magnum Semiconductor, Inc. By selling the digital video product line assets, we are able to focus on our core analog, mixed-signal and embedded product lines for audio and industrial markets. We no longer have digital video product revenue due to this transaction. With the sale of the digital video product line assets, we have reclassified a product previously reported as part of the digital video products as part of the embedded product line. We retained the rights to sell this specific product as part of the digital video product line divestiture.

Geographic Area

The following illustrates revenues by geographic locations based on the sales office location (in thousands):

	<u>March 25, 2006</u>	<u>March 26, 2005</u>	<u>March 27, 2004</u>
United States	\$ 71,191	\$ 62,885	\$ 68,828
European Union	25,794	26,968	14,864
United Kingdom	3,408	3,597	897
China	20,934	22,692	33,907
Hong Kong	15,451	12,537	6,585
Japan	11,869	9,740	10,282
Korea	10,772	17,054	14,027
Taiwan	11,283	14,412	25,165
Other Asia	15,506	19,556	19,631
Other non-U.S. countries	7,486	5,459	2,152
Total consolidated revenues	<u>\$ 193,694</u>	<u>\$ 194,900</u>	<u>\$ 196,338</u>

The following illustrates property and equipment, net, by geographic locations, based on physical location (in thousands):

	<u>March 25, 2006</u>	<u>March 26, 2005</u>
United States	\$13,557	\$16,578
United Kingdom	35	25
China	175	294
Hong Kong	51	108
Japan	15	37
Korea	114	334
Taiwan	17	193
Other Asia	87	3
Other non-U.S. countries	—	—
Total consolidated property and equipment, net	<u>\$14,051</u>	<u>\$17,572</u>

16. Quarterly Results (Unaudited)

The following quarterly results have been derived from our audited annual consolidated financial statements. In the opinion of management, this unaudited quarterly information has been prepared on the same basis as the annual consolidated financial statements and includes all adjustments, including normal recurring adjustments, necessary for a fair presentation of this quarterly information. This information should be read along with the financial statements and related notes. The operating results for any quarter are not necessarily indicative of results to be expected for any future period.

The following is a condensed summary of our unaudited quarterly results of operations for fiscal year 2006, which was restated as discussed in Note 1A to the Consolidated Financial Statements (in thousands, except per share data):

Quarterly Results of Operations (in thousands, except per share data, unaudited)

	Three Months Ended			
	March 25, 2006	December 24, 2005	September 24, 2005	June 25, 2005
	Previously Filed	Previously Filed	Previously Filed	Previously Filed
Net sales	\$ 42,158	\$ 48,253	\$ 50,461	\$ 52,822
Cost of sales	17,678	21,686	23,596	25,522
Gross Margin	\$ 24,480	\$ 26,567	\$ 26,865	\$ 27,300
Research and development	10,378	10,442	10,630	13,651
Selling, general and administrative	9,437	10,740	15,765	14,301
Restructuring and other, net	-	-	2,311	-
Litigation settlement, net	-	-	-	(24,758)
License Agreement	(7,000)	-	-	-
Total operating expenses	\$ 12,815	\$ 21,182	\$ 28,706	\$ 3,194
Income (loss) from operations	\$ 11,665	\$ 5,385	\$ (1,841)	\$ 24,106
Realized gain on marketable securities	-	-	-	388
Interest income, net	2,510	2,131	1,684	1,136
Other income (expense), net	21	53	(109)	(19)
Income (loss) before income taxes	\$ 14,196	\$ 7,569	\$ (266)	\$ 25,611
Benefit for income taxes	(1,241)	(5,261)	(167)	(366)
Net income (loss)	\$ 15,437	\$ 12,830	\$ (99)	\$ 25,977
Earnings per share:				
Basic	\$ 0.18	\$ 0.15	\$ -	\$ 0.30
Diluted	\$ 0.17	\$ 0.15	\$ -	\$ 0.30
Weighted Average Common Shares Outstanding:				
Basic	86,718	86,399	85,804	85,230
Diluted	88,924	88,101	85,804	86,183

Quarterly Results of Operations (adjustments resulting from restatement; in thousands, except per share data, unaudited)

	Three Months Ended			
	March 25, 2006	December 24, 2005	September 24, 2005	June 25, 2005
Net sales	\$ -	\$ -	\$ -	\$ -
Cost of sales	5	2	12	1
Gross Margin	\$ (5)	\$ (2)	\$ (12)	\$ (1)
Research and development	192	58	394	27
Selling, general and administrative	294	89	604	41
Total operating expenses	\$ 486	\$ 147	\$ 998	\$ 68
Loss from operations	\$ (491)	\$ (149)	\$ (1,010)	\$ (69)
Loss before income taxes	\$ (491)	\$ (149)	\$ (1,010)	\$ (69)
Benefit for income taxes	-	-	-	-
Net loss	\$ (491)	\$ (149)	\$ (1,010)	\$ (69)
Earnings per share:				
Basic	\$ (0.01)	\$ -	\$ (0.01)	\$ -
Diluted	\$ (0.01)	\$ -	\$ (0.01)	\$ -

Quarterly Results of Operations (in thousands, except per share data, unaudited)

	Three Months Ended			
	March 25, 2006	December 24, 2005	September 24, 2005	June 25, 2005
	Restated	Restated	Restated	Restated
Net sales	\$ 42,158	\$ 48,253	\$ 50,461	\$ 52,822
Cost of sales	17,683	21,688	23,608	25,523
Gross Margin	\$ 24,475	\$ 26,565	\$ 26,853	\$ 27,299
Research and development	10,570	10,500	11,024	13,678
Selling, general and administrative	9,731	10,829	16,369	14,342
Restructuring and other, net	-	-	2,311	-
Litigation settlement, net	-	-	-	(24,758)
License Agreement	(7,000)	-	-	-
Total operating expenses	\$ 13,301	\$ 21,329	\$ 29,704	\$ 3,262
Income (loss) from operations	\$ 11,174	\$ 5,236	\$ (2,851)	\$ 24,037
Realized gain on marketable securities	-	-	-	388
Interest income, net	2,510	2,131	1,684	1,136
Other income (expense), net	21	53	(109)	(19)
Income (loss) before income taxes	\$ 13,705	\$ 7,420	\$ (1,276)	\$ 25,542
Benefit for income taxes	(1,241)	(5,261)	(167)	(366)
Net income (loss)	\$ 14,946	\$ 12,681	\$ (1,109)	\$ 25,908
Earnings per share:				
Basic	\$ 0.17	\$ 0.15	\$ (0.01)	\$ 0.30
Diluted	\$ 0.17	\$ 0.14	\$ (0.01)	\$ 0.30
Weighted Average Common Shares Outstanding:				
Basic	86,718	86,399	85,804	85,230
Diluted	88,924	88,101	85,804	86,183

The following is a condensed summary of our unaudited quarterly results of operations for fiscal year 2005, which was restated as discussed in Note 1A to the Consolidated Financial Statements (in thousands, except per share data):

Quarterly Results of Operations (in thousands, except per share data, unaudited)

	Three Months Ended			
	March 26, 2005	December 25, 2004	September 25, 2004	June 26, 2004
	Previously Filed	Previously Filed	Previously Filed	Previously Filed
Net sales	\$ 40,415	\$ 44,036	\$ 51,332	\$ 59,117
Cost of sales	18,955	26,834	28,404	27,444
Gross Margin	\$ 21,460	\$ 17,202	\$ 22,928	\$ 31,673
Research and development	18,270	18,899	21,212	22,126
Selling, general and administrative	7,127	9,611	13,162	12,494
Restructuring and other, net	485	3,107	4,148	1,723
Patent agreement, net	-	(593)	-	-
Total operating expenses	\$ 25,882	\$ 31,024	\$ 38,522	\$ 36,343
Income (loss) from operations	\$ (4,422)	\$ (13,822)	\$ (15,594)	\$ (4,670)
Realized gain on marketable securities	137	-	-	669
Interest income, net	962	946	604	696
Other income (expense), net	116	272	(5)	(66)
Income (loss) before income taxes	\$ (3,207)	\$ (12,604)	\$ (14,995)	\$ (3,371)
Benefit for income taxes	(5,745)	(15,134)	66	24
Net income (loss)	\$ 2,538	\$ 2,530	\$ (15,061)	\$ (3,395)
Earnings per share:				
Basic	\$ 0.03	\$ 0.03	\$ (0.18)	\$ (0.04)
Diluted	\$ 0.03	\$ 0.03	\$ (0.18)	\$ (0.04)
Weighted Average Common Shares Outstanding:				
Basic	85,124	84,773	84,671	84,419
Diluted	86,151	86,159	84,671	84,419

Quarterly Results of Operations (adjustments resulting from restatement; in thousands, except per share data, unaudited)

	Three Months Ended			
	March 26, 2005	December 25, 2004	September 25, 2004	June 26, 2004
Net sales	\$ -	\$ -	\$ -	\$ -
Cost of sales	(2)	7	1	(5)
Gross Margin	\$ 2	\$ (7)	\$ (1)	\$ 5
Research and development	(50)	245	29	(182)
Selling, general and administrative	(77)	377	44	(279)
Total operating expenses	\$ (127)	\$ 622	\$ 73	\$ (461)
Loss from operations	\$ 129	\$ (629)	\$ (74)	\$ 466
Loss before income taxes	\$ 129	\$ (629)	\$ (74)	\$ 466
Benefit for income taxes	-	-	-	-
Net loss	\$ 129	\$ (629)	\$ (74)	\$ 466
Earnings per share:				
Basic	\$ -	\$ (0.01)	\$ -	\$ 0.01
Diluted	\$ -	\$ (0.01)	\$ -	\$ 0.01

Quarterly Results of Operations (in thousands, except per share data, unaudited)

	Three Months Ended			
	March 26, 2005	December 25, 2004	September 25, 2004	June 26, 2004
	Restated	Restated	Restated	Restated
Net sales	\$ 40,415	\$ 44,036	\$ 51,332	\$ 59,117
Cost of sales	18,953	26,841	28,405	27,439
Gross Margin	\$ 21,462	\$ 17,195	\$ 22,927	\$ 31,678
Research and development	18,220	19,144	21,241	21,944
Selling, general and administrative	7,050	9,988	13,206	12,215
Restructuring and other, net	485	3,107	4,148	1,723
Patent agreement, net	-	(593)	-	-
Total operating expenses	\$ 25,755	\$ 31,646	\$ 38,595	\$ 35,882
Income (loss) from operations	\$ (4,293)	\$ (14,451)	\$ (15,668)	\$ (4,204)
Realized gain on marketable securities	137	-	-	669
Interest income, net	962	946	604	696
Other income (expense), net	116	272	(5)	(66)
Income (loss) before income taxes	\$ (3,078)	\$ (13,233)	\$ (15,069)	\$ (2,905)
Benefit for income taxes	(5,745)	(15,134)	66	24
Net income (loss)	\$ 2,667	\$ 1,901	\$ (15,135)	\$ (2,929)
Earnings per share:				
Basic	\$ 0.03	\$ 0.02	\$ (0.18)	\$ (0.03)
Diluted	\$ 0.03	\$ 0.02	\$ (0.18)	\$ (0.03)
Weighted Average Common Shares Outstanding:				
Basic	85,124	84,773	84,671	84,419
Diluted	86,151	86,159	84,671	84,419



The following table presents the effects of adjustments made to our previously reported quarterly consolidated balance sheets for fiscal year 2006 (in thousands):

CIRRUS LOGIC, INC. CONSOLIDATED BALANCE SHEET (in thousands)									
	Quarter Ended December 24, 2005			Quarter Ended September 24, 2005			Quarter Ended June 25, 2005		
	Previously Reported	Adjustments	Restated	Previously Reported	Adjustments	Restated	Previously Reported	Adjustments	Restated
<b>Assets</b>									
Current assets:									
Cash and cash equivalents	\$ 114,947	\$ -	\$ 114,947	\$ 112,347	\$ -	\$ 112,347	\$ 89,938	\$ -	\$ 89,938
Restricted investments	5,755	-	5,755	5,755	-	5,755	7,987	-	7,987
Marketable securities	107,330	-	107,330	92,163	-	92,163	100,311	-	100,311
Accounts receivable, net	21,442	-	21,442	21,579	-	21,579	23,457	-	23,457
Inventories	17,049	-	17,049	17,014	-	17,014	19,544	-	19,544
Prepaid Assets	3,066	-	3,066	2,578	-	2,578	2,106	-	2,106
Other current assets	3,912	-	3,912	3,709	-	3,709	9,663	-	9,663
Total current assets	273,501	-	273,501	255,145	-	255,145	253,006	-	253,006
Long-term marketable securities	4,935	-	4,935	14,869	-	14,869	16,311	-	16,311
Property and equipment, net	14,012	-	14,012	14,329	-	14,329	15,707	-	15,707
Intangibles, net	3,441	-	3,441	4,090	-	4,090	4,689	-	4,689
Investment in Magnum Semiconductor	7,947	-	7,947	7,947	-	7,947	-	-	-
Other assets	2,890	-	2,890	3,425	-	3,425	3,210	-	3,210
Total assets	<u>\$ 306,726</u>	<u>\$ -</u>	<u>\$ 306,726</u>	<u>\$ 299,805</u>	<u>\$ -</u>	<u>\$ 299,805</u>	<u>\$ 292,923</u>	<u>\$ -</u>	<u>\$ 292,923</u>
<b>Liabilities and Stockholders' Equity</b>									
Current liabilities:									
Accounts payable	\$ 17,149	\$ -	\$ 17,149	\$ 15,181	\$ -	\$ 15,181	\$ 14,542	\$ -	\$ 14,542
Accrued salaries and benefits	6,329	-	6,329	6,756	-	6,756	8,350	-	8,350
Other accrued liabilities	12,223	141	12,364	14,072	138	14,210	10,824	135	10,959
Deferred income on shipments to distributors	6,108	-	6,108	6,807	-	6,807	7,435	-	7,435
Income taxes payable	3,145	-	3,145	8,526	-	8,526	8,788	-	8,788
Total current liabilities	44,954	141	45,095	51,342	138	51,480	49,939	135	50,074
Long-term restructuring accrual	4,545	-	4,545	4,807	-	4,807	3,526	-	3,526
Other long-term obligations	9,428	-	9,428	10,062	-	10,062	8,541	-	8,541
Stockholders' equity:									
Capital stock	880,930	31,791	912,721	879,560	31,645	911,205	876,763	30,638	907,401
Accumulated deficit	(632,089)	(31,932)	(664,021)	(644,919)	(31,783)	(676,702)	(644,820)	(30,773)	(675,593)
Accumulated other comprehensive loss	(1,042)	-	(1,042)	(1,047)	-	(1,047)	(1,026)	-	(1,026)
Total stockholders' equity	247,799	(141)	247,658	233,594	(138)	233,456	230,917	(135)	230,782
Total liabilities and stockholders' equity	<u>\$ 306,726</u>	<u>-</u>	<u>\$ 306,726</u>	<u>\$ 299,805</u>	<u>-</u>	<u>\$ 299,805</u>	<u>\$ 292,923</u>	<u>-</u>	<u>\$ 292,923</u>

The following table presents the effects of adjustments made to our previously reported quarterly consolidated balance sheets for fiscal year 2005 (in thousands):

CIRRUS LOGIC, INC. CONSOLIDATED BALANCE SHEET (in thousands)										
	Quarter Ended December 25, 2004			Quarter Ended September 25, 2004			Quarter Ended June 26, 2004			
	Previously Reported	Adjustments	Restated	Previously Reported	Adjustments	Restated	Previously Reported	Adjustments	Restated	
<b>Assets</b>										
Current assets:										
Cash and cash equivalents	\$ 93,432	\$ -	\$ 93,432	\$ 100,050	\$ -	\$ 100,050	\$ 168,976	\$ -	\$ 168,976	
Restricted investments	7,784	-	7,784	7,184	-	7,184	8,159	-	8,159	
Marketable securities	61,893	-	61,893	45,435	-	45,435	18,438	-	18,438	
Accounts receivable, net	21,050	-	21,050	28,677	-	28,677	27,927	-	27,927	
Inventories	32,330	-	32,330	42,582	-	42,582	40,988	-	40,988	
Prepaid Assets	3,032	-	3,032	2,024	-	2,024	4,447	-	4,447	
Other current assets	4,217	-	4,217	3,348	-	3,348	4,150	-	4,150	
Total current assets	223,738	-	223,738	229,300	-	229,300	273,085	-	273,085	
Long-term marketable securities	15,319	-	15,319	25,053	-	25,053	2,112	-	2,112	
Property and equipment, net	19,934	-	19,934	21,843	-	21,843	22,982	-	22,982	
Intangibles, net	14,807	-	14,807	19,923	-	19,923	24,929	-	24,929	
Other assets	2,907	-	2,907	2,862	-	2,862	2,912	-	2,912	
Total assets	<u>\$ 276,705</u>	<u>\$ -</u>	<u>\$ 276,705</u>	<u>\$ 298,981</u>	<u>\$ -</u>	<u>\$ 298,981</u>	<u>\$ 326,020</u>	<u>\$ -</u>	<u>\$ 326,020</u>	
<b>Liabilities and Stockholders' Equity</b>										
Current liabilities:										
Accounts payable	\$ 14,914	\$ -	\$ 14,914	\$ 22,407	\$ -	\$ 22,407	\$ 32,347	\$ -	\$ 32,347	
Accrued salaries and benefits	8,974	-	8,974	9,355	-	9,355	10,027	-	10,027	
Other accrued liabilities	15,809	525	16,334	18,257	519	18,776	18,389	513	18,902	
Deferred income on shipments to distributors	7,877	-	7,877	7,869	-	7,869	5,962	-	5,962	
Income taxes payable	15,075	-	15,075	30,299	-	30,299	30,124	-	30,124	
Total current liabilities	62,649	525	63,174	88,187	519	88,706	96,849	513	97,362	
Long-term restructuring accrual	3,411	-	3,411	3,515	-	3,515	7,610	-	7,610	
Other long-term obligations	9,848	-	9,848	10,389	-	10,389	9,915	-	9,915	
Stockholders' equity:										
Capital stock	875,216	30,308	905,524	873,634	29,684	903,318	873,319	29,616	902,935	
Accumulated deficit	(673,335)	(30,833)	(704,168)	(675,865)	(30,203)	(706,068)	(660,804)	(30,129)	(690,933)	
Accumulated other comprehensive loss	(1,084)	-	(1,084)	(879)	-	(879)	(869)	-	(869)	
Total stockholders' equity	200,797	(525)	200,272	196,890	(519)	196,371	211,646	(513)	211,133	
Total liabilities and stockholders' equity	<u>\$ 276,705</u>	<u>-</u>	<u>\$ 276,705</u>	<u>\$ 298,981</u>	<u>-</u>	<u>\$ 298,981</u>	<u>\$ 326,020</u>	<u>-</u>	<u>\$ 326,020</u>	

17. Related Party Transactions

The Company had two outstanding loans to Mr. David D. French (“Mr. French”), President and Chief Executive Officer, only one of which remained outstanding as of March 25, 2006. Both loans were “grandfathered” under Section 402 of the Sarbanes Oxley Act of 2002, which prohibits loans to directors and executive officers that are made, renewed or materially modified after July 30, 2002. Neither of the loans described below have been modified or renewed since the Company made them to Mr. French.

In October 1998, the Company extended a loan to Mr. French for the purchase of his principal residence in Texas. The original principal amount of the loan was \$721,899 and carries an interest rate of 5.64 percent per annum. The principal and accrued interest is due and payable on the earlier of (i) September 1, 2013, (ii) 180 days following the date of the termination of his employment for any reason, or (iii) upon sale of the residence. In the event of his death or disability, the principal and accrued interest will be forgiven, subject to applicable law. The aggregate amount of principal plus accrued interest outstanding under this loan at the end of fiscal years 2006 and 2005 was \$1,088,000 and \$1,031,000, respectively. This loan is currently classified as a long-term asset on the balance sheet under “*Other assets.*”

In July 1999, the Company also advanced a personal loan in the original principal amount of \$750,000 to Mr. French. The note bore interest at 5.82 percent per annum and was secured by 90,000 shares of the Company’s common stock held in escrow. The note and accrued interest were due and payable upon the earlier of (i) July 21, 2004 or (ii) 180 days following the termination of Mr. French’s employment. The aggregate amount of principal plus accrued interest outstanding under this loan at the end of fiscal year 2004 was \$978,079 and was classified as a current asset. During fiscal year 2005, the loan accrued an additional \$17,397 of interest. On July 21, 2004, Mr. French fulfilled his obligation with respect to this loan and paid the final outstanding balance of \$995,476.

**18. Subsequent Events (Unaudited)**

*Acquisition of Caretta Integrated Circuits*

On December 29, 2006, Cirrus Logic acquired 100 percent of the voting equity interests in Caretta Integrated Circuits (“Caretta”), a company based in Shanghai, China that specializes in designing power management integrated circuits for the large, single-cell lithium ion battery market. This acquisition was undertaken to strengthen and diversify our analog and mixed signal product portfolios as well as position us for growth within the China market. The aggregate purchase price for all of Caretta’s voting equity interests was \$11.0 million and was comprised of \$7.6 million paid to Caretta shareholders, \$1.5 million in direct acquisition costs, \$1.4 million in cash paid into an escrow account and \$0.5 million in loan repayment premiums.

**ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

**Special Committee Review into Stock Option Grant Practices and Restatement**

As discussed in the Explanatory Note preceding Part I of this Form 10-K/A, a Board-appointed Special Committee recently completed an investigation into our historic stock option granting practices. Based on the report of the Special Committee and on management’s preliminary conclusions and recommendations, the Board concluded that incorrect measurement dates were used for financial accounting purposes for certain stock options granted between January 1, 1997 and December 31, 2005. Details of the results of the investigation into our historic stock option granting practices are discussed in the Explanatory Note at the beginning of this Report and in Note 1A of the Notes to the Consolidated Financials Statements in Part II, Item 8, “*Financial Statements and Supplementary Data,*” of this Report.

In March 2007, we disclosed that the non-cash charges required to correct the discrepancy would be material, and that we expected to restate our financial statements for fiscal years 2002 through 2006 as well as the first quarter of fiscal year 2007. Accordingly, the Board concluded the financial statements, related notes and selected financial data and all financial press releases and similar communications issued by us as well as the related reports of the Company’s independent registered public accounting firm relating to fiscal periods 2002 through 2006, and the first fiscal quarter of 2007, should no longer be relied upon.

**Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are intended to ensure that the information required to be disclosed in our Securities Exchange Act of 1934 (the “Exchange Act”) filings are properly and timely recorded and reported. Our management is responsible for establishing and maintaining effective internal controls over financial reporting. We have formed a Disclosure Review Committee comprised of key individuals from several disciplines within the Company who are involved in the disclosure and reporting process. This committee, which is led by the Corporate Controller, meets periodically to ensure the timeliness, accuracy, and completeness of the information required to be disclosed in our filings.

Our management, with the participation of our Former Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 25, 2006 and, based on this evaluation, our Former Chief Executive Officer and Chief Financial Officer had previously concluded that our disclosure controls and procedures were effective as of that date. Additionally, in “Management’s Report on Internal Control over Financial Reporting” included in our original Annual Report on Form 10-K for the year ended March 25, 2006, our management, including our Former Chief Executive Officer and Chief Financial Officer, concluded that we maintained effective internal control over financial reporting as of December 31, 2005.

In connection with the filing of this Amended Annual Report on Form 10-K/A, our current management, under the supervision of our CEO and CFO, conducted an evaluation of our disclosure controls and procedures. Based on this evaluation, which included the findings of the Special Committee’s investigation and the restatement described herein, our CEO and CFO concluded our disclosure controls and procedures were not effective at a reasonable assurance level on March 25, 2006 because of a material weakness in internal control with respect to our control environment as it relates to our stock option granting practices, including the involvement of our former CEO in the grant process, which resulted in the restatement of our consolidated financial statements for each of the years ended March 25, 2006, March 26, 2005 and March 27, 2004.. This material weakness was initially identified in conjunction with the Special Committee’s investigation and was remediated based upon previously implemented process improvements and the coincident resignation of our former chief executive officer on March 5, 2007. Since the material weakness was remediated as of the date of this filing, our Acting President and CEO and

CFO determined current disclosure controls and procedures are effective at a reasonable assurance level as of the date of this filing.

**Management’s Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining effective internal control over financial reporting, as such term is defined under Rule 13a-15(f). Under the supervision and with the participation of our management, including our CEO and CFO, we assessed the effectiveness of our internal control over financial reporting as of the end of the period covered by this report based on the framework in “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Because of its inherent limitation, internal control over financial report may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions and that the degree of compliance with the policies or procedures may deteriorate.

Based on its assessment of internal control over financial reporting, management has concluded that our internal control over financial reporting was not effective as of March 25, 2006 to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with U.S. generally accepted accounting principles because of a material weakness with respect to our control environment as it relates to stock option granting practices, including the involvement of our former CEO in the grant process, which resulted in the restatement of our consolidated financial statements for each of the years ended March 25, 2006, March 26, 2005 and March 27, 2004.

Our independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report on management’s updated assessment of our internal control over financial reporting as of March 25, 2006, included in Item 8 of this report.

**Remediation of the Material Weaknesses in Internal Control over Financial Reporting**

Beginning November, 2002, the Company has implemented a number of improvements to its internal grant procedures. In particular, we implemented improvements to our granting processes for broad-based annual grants. For annual grants after 2002, the Company followed a practice to ensure:

- the grant date was established at a Board or Committee meeting prior to the grant date; and
- the list of recipients was final and approved by the grant date.

Further, for monthly grants after 2002, the Company followed a monthly grant process for obtaining approval of proposed option grants (the “Monthly Consent Process”) to ensure:

- a more formalized process and checklist was completed with regard to the Monthly Consent Process; and
- proposed unanimous written consents (“UWCs”) for option grants were sent to the Compensation Committee on the monthly grant date, which was usually the first Wednesday of each month (the “Monthly Grant Date”).

In 2005, the Monthly Consent Process was further refined as follows:

- proposed UWCs for option grants were sent to the Compensation Committee on Friday a week prior to the Monthly Grant Date to allow additional time to review; and
- the bylaws were amended to permit electronic approvals of UWC’s by the Compensation Committee.

In addition, during our initial internal review of stock option granting practices in 2006, we further improved and strengthened our Monthly Consent Process related to our stock option program through the addition of the following controls designed to provide appropriate safeguards and greater internal control over the stock option granting and administrative function:

- The stock option granting procedures have been formalized, documented and approved by the Compensation Committee and the Board;
- Using a checklist, the Company’s Stock Administrator tracks each step of the Monthly Consent Process to ensure all items in the process are completed and all necessary records are properly maintained.
- Approximately two weeks before the Monthly Grant Date, the Stock Administrator creates the proposed grant list. The list is populated from Personnel Action Notices (“PANs”) received from Human Resources (“HR”) and Special Stock Option Grant Requests (“SSOGRs”) are approved via the SSOGR application in SAP. All requests for grants outside the Company’s grant guidelines include a “Request for Exception to Guidelines” form that includes the reasons for the proposed grant outside the Company’s grant guidelines. The “vesting start date” for all proposed grants is set as the Monthly Grant Date.
- The Stock Administrator sends the proposed grant list to HR to confirm:
  - the list is complete and correct;
  - special exception forms have been obtained for any grants that fall outside guidelines; and
  - there are no open negotiations with any proposed recipients relating to any of the proposed grants.
- The Stock Administrator updates the information contained in the “Equity Incentive Awards Year-to-Date Status for Fiscal Year” report, which is provided to the Compensation Committee members on a monthly basis.
- Approximately ten days prior to the Monthly Grant Date, the Stock Administrator emails a proposed written consent and associated exhibits to the members of the Compensation Committee.
- Upon receiving consent for the grants from a member of the Compensation Committee, the Stock Administrator records the date the consent is received on the checklist. A Committee member may approve the proposed UWC by signing and returning the UWC to the Stock Administrator, or alternatively, by sending an electronic message (e.g., email) to the Stock Administrator indicating the Committee member’s approval.
- If the Stock Administrator has not received the UWC from all members of the Compensation Committee at least three days before the Monthly Grant Date, the Stock Administrator will re-send the request for approvals and another copy of the UWC. In addition, the Corporate Secretary of the Company will provide the proper required notice of a Compensation Meeting to be held on or before the Monthly Grant. The purpose of the meeting will be to review the proposed option grants previously delivered to the Committee.
- After Compensation Committee approval has been received, the Stock Administrator informs HR that the proposed grants have been approved. HR notifies the recipient of the approved grants by email on or prior to the Monthly Grant Date.
- If the proposed grants have not been approved by the Compensation Committee before the Monthly Grant Date, then the Company will not grant or price any awards for that month. All proposed grants may be included for approval in the following month’s grant list and must be approved again pursuant to these procedures.
- If the Compensation Committee has approved the grants but employees are not notified of the approvals on or before the Monthly Grant Date, then HR contacts the General Counsel prior to providing any such notice. The General Counsel determines whether to proceed with notifying employees of the approved grants or require the grants be approved again pursuant to these procedures.
- The Stock Administrator prepares a list of the approved grants and transmits the list to the Company’s Third-Party Stock Plan Administrator.

- The Stock Administrator maintains the appropriate records with the Company corporate minute books and records.
- The Stock Administrator maintains a cumulative summary document that provides a summary of all equity incentive grants issued by the Company for the current fiscal year.
- After notifying the Company’s Third Party Stock Plan Administrator of the awards, the Stock Administrator runs a report for the Monthly Grant Date from the Third Party Stock Plan Administrator’s database to confirm that all grants sent to them have been entered in their database under the correct employee names and identification numbers.
- Any material deviation from these procedures must be approved by the Company’s General Counsel. The Stock Administrator notifies the Company’s Chief Financial Officer and the General Counsel of any material deviation from these procedures that is not approved in advance by the General Counsel.

As of the date of this filing, these controls continue to be in effect.

Neither management, nor the Special Committee has identified any grant dates selected with hindsight or prior to completing the formal approval process since 2003. The adjustments to our financial statements principally resulted from revisions made to measurement dates for certain options granted prior to December 31, 2002. The Company is currently reviewing the Special Committee recommendations to ensure that we continue to strengthen our controls over our stock option granting process.

This material weakness discussed above was remediated through the implemented process improvements described above and the coincident resignation of our former chief executive officer on March 5, 2007.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Inherent Limitations on Effectiveness of Controls**

Our management, including the CEO and CFO, do not expect that our Disclosure Controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. The design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and breakdowns can occur as a result of simple errors or mistakes. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

**PART III**

**ITEM 10. *Directors and Executive Officers of the Registrant***

The information set forth in the Proxy Statement to be delivered to stockholders in connection with our Annual Meeting of Stockholders to be held on July 28, 2006 under the headings “Board Structure and Compensation,” “Proposal 1: Election of Directors,” “Executive Officers,” and “Section 16(a) Beneficial Ownership Reporting Compliance” is incorporated herein by reference.

**ITEM 11. *Executive Compensation***

The information set forth in the Proxy Statement under the heading “Executive Compensation and Other Information,” is incorporated herein by reference.

**ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information set forth in the Proxy Statement under the heading “Stock Ownership,” is incorporated herein by reference.

**ITEM 13. Certain Relationships and Related Transactions**

The information set forth in the Proxy Statement under the heading “Certain Relationships and Related Transactions,” is incorporated herein by reference.

**ITEM 14. Principal Accountant Fees and Services**

The information set forth in the Proxy Statement under the heading “Audit and Non-Audit Fees and Services,” is incorporated herein by reference.

**PART IV**

**ITEM 15. Exhibit and, Financial Statement Schedules**

(a) The following documents are filed as part of this Report:

*1. Consolidated Financial Statements*

- Reports of Ernst & Young LLP, Independent Registered Public Accounting Firm.
- Consolidated Balance Sheet as of March 25, 2006 and March 26, 2005.
- Consolidated Statement of Operations for the fiscal years ended March 25, 2006, March 26, 2005, and March 27, 2004.
- Consolidated Statement of Cash Flows for the fiscal years ended March 25, 2006, March 26, 2005, and March 27, 2004.
- Consolidated Statement of Stockholders’ Equity for the fiscal years ended March 25, 2006, March 26, 2005, and March 27, 2004.
- Notes to Consolidated Financial Statements.

*2. Financial Statement Schedules*

All schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or notes thereto.

*3. Exhibits*

The following exhibits are filed as part of or incorporated by reference into this Report:

- |        |   |
|--------|---|
| 3.1    | Certificate of Incorporation of Registrant, filed with the Delaware Secretary of State on August 26, 1998. (1)  |
| 3.2    | Agreement and Plan of Merger, filed with the Delaware Secretary of State on February 17, 1999. (1)  |
| 3.3    | Certificate of Designation of Rights, Preferences and Privileges of Series A Preferred Stock, filed with the Delaware Secretary of State on March 30, 1999. (1) |
| 3.4    | Amended and Restated Bylaws of Registrant. (9)  |
| 3.5    | Certificate of Elimination dated May 26, 2005 (8)   |
| 10.1 + | Amended 1987 Stock Option Plan. (3)   |
| 10.2 + | 1989 Employee Stock Purchase Plan, as amended September 21, 2005. (10)  |
| 10.3 + | 1990 Directors’ Stock Option Plan, as amended. (4)  |
| 10.4 + | 1996 Stock Plan, as amended. (4)  |
| 10.5 + | 2002 Stock Option Plan, as amended. (2)   |
| 10.6   | Form of Indemnification Agreement. (1)  |
| 10.7+  | Employment Agreement by and between Registrant and David D. French dated February 7, 2002. (5)  |
| 10.8+  | Executive Incentive Plan. (5)   |
| 10.9   | Lease between TPLP Office and Registrant, dated April 1, 2000 for 54,385 square feet located at 4210 S. Industrial Drive Austin, Texas. (1)                     |
| 10.10  | Lease between ProLogis Trust and Registrant, dated March 31, 1995 for 176,000 square feet located at 4129 Commercial Center                                     |

- Drive and 4209 S. Industrial Austin, Texas, as amended through December 20, 1996. (1)
- 10.11 Lease between American Industrial Properties and Registrant, dated September 15, 1999 for 18,056 square feet located at 4120 Commercial Drive Austin, Texas. (1)
- 10.12 Lease Agreement by and between Desta Five Partnership, Ltd. and Registrant, dated November 10, 2000 for 197,000 square feet located at 2901 Via Fortuna, Austin, Texas. (1)
- 10.13 Amendment No. 1 to Lease Agreement by and between Desta Five Partnership, Ltd. and Registrant dated November 10, 2000. (5)
- 10.14 Amendment No. 2 to Lease Agreement by and between Desta Five Partnership, Ltd. and Registrant dated November 10, 2000. (2)
- 10.15+ Employment Agreement by and between Registrant and John T. Kurtzweil dated March 15, 2004. (6)
- 10.16 Amended and Restated Rights Agreement, dated as of February 17, 1999 between Cirrus Logic, Inc. and BankBoston, N.A. (7)
- 10.17 First Amendment to Amended and Restated Rights Agreement dated as of May 25, 2005, between Cirrus Logic, Inc. and BankBoston, N.A. (8)
- 10.18 Amendment No. 3 to Lease Agreement by and between Desta Five Partnership, Ltd. and Registrant dated November 10, 2000. (11)
- 10.19 Employment Agreement by and between Registrant and Gregory S. Thomas dated May 24, 2006. (11)
- 14 Code of Conduct. (6)
- 23.1 \* Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
- 24.1 \* Power of Attorney (see signature page).
- 31.1 \* Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 \* Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 \* Certification of Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 \* Certification of Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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+ Indicates a management contract or compensatory plan or arrangement.

\* Filed with this Form 10-K/A.

- (1) Incorporated by reference from Registrant’s Report on Form 10-K for the fiscal year ended March 31, 2001, filed with the Commission on June 22, 2001.
- (2) Incorporated by reference from Registrant’s Report on Form 10-K for the fiscal year ended March 29, 2003, filed with the Commission on June 13, 2003.
- (3) Incorporated by reference from Registrant’s Report on Form 10-K for the fiscal year ended March 30, 1996, filed with the Commission on June 28, 1996.
- (4) Incorporated by reference from Registrant’s Registration Statement on Form S-8 filed with the Commission on August 8, 2001 (Registration No. 333-67322).
- (5) Incorporated by reference from Registrant’s Report on Form 10-K for the fiscal year ended March 30, 2002, filed with the Commission on June 19, 2002.
- (6) Incorporated by reference from Registrant’s Report on Form 10-K for the fiscal year ended March 27, 2004, filed with the Commission on June 9, 2004.
- (7) Incorporated by reference from Registrant’s Registration Statement of Amendment No. 1 to Form 8-A filed on March 3, 1999.
- (8) Incorporated by reference from Registrant’s Report on Form 10-K for the fiscal year ended March 26, 2005, filed with the Commission on May 27, 2005.
- (9) Incorporated by reference from Registrant’s Report of Form 8-K filed with the Commission on September 21, 2005.
- (10) Incorporated by reference from Registrant’s Report on form 10-Q filed with the Commission on October 25, 2005.
- (11) Incorporated by reference from Registrant’s Report on Form 10-K filed with the Commission on May 25, 2006.



Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned; thereunto duly authorized.

CIRRUS LOGIC, INC.

By: /s/ THURMAN K. CASE  
Thurman K. Case  
Chief Financial Officer and Chief Accounting Officer

KNOW BY THESE PRESENT, that each person whose signature appears below constitutes and appoints Thurman K. Case, his attorney-in-fact, with the power of substitution, for him in any and all capacities, to sign any amendments to this report on Form 10-K/A and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of the attorney-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, the following persons on behalf of the Registrant, in the capacities and on the dates indicated have signed this report below:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ MICHAEL L. HACKWORTH</u> Michael L. Hackworth	Acting President and CEO; Chairman of the Board and Director	April 18, 2007
<u>/s/ THURMAN K. CASE</u> Thurman K. Case	Chief Financial Officer and Chief Accounting Officer	April 18, 2007
<u>/s/ D. JAMES GUZY</u> D. James Guzy	Director	April 18, 2007
<u>/s/ SUHAS S. PATIL</u> Suhas S. Patil	Chairman Emeritus and Director	April 18, 2007
<u>/s/ WALDEN C. RHINES</u> Walden C. Rhines	Director	April 18, 2007
<u>/s/ WILLIAM D. SHERMAN</u> William D. Sherman	Director	April 18, 2007
<u>/s/ ROBERT H. SMITH</u> Robert H. Smith	Director	April 18, 2007

Exhibit Index

(a) The following exhibits are filed as part of this Report:

<u>Number</u>	<u>Description</u>
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
24.1	Power of Attorney (see signature page).
31.1	Certification of Acting Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Acting Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Form S-8 No. 33-31697, 33-37409, 33-43914, 33-47453, 33-53990, 33-60464, 33-71862, 33-83148, 33-65495, 333-16417, 333-42693, 333-72573, 333-88347, 333-88345, 333-89243, 333-48490, 333-63674, 333-67322, 333-71046, 333-71366, 333-74804, 333-101119, 333-107807, 333-107808, 333-117741 and 333-136219) pertaining to the following: the Cirrus Logic, Inc. Amended 1987 Stock Option Plan; the Cirrus Logic, Inc. Fourth Amended and Restated 1989 Employee Stock Purchase Plan; the Cirrus Logic, Inc. Amended 1990 Directors’ Stock Option Plan; the DST Stock Option Plan; the Cirrus Logic, Inc. Amended 1991 Non-qualified Stock Option Plan; the Cirrus Logic, Inc. Amended 1996 Stock Plan; the Crystal Semiconductor Corporation 1987 Incentive Stock Option Plan; the Acumos Incorporated 1989 Stock Option Plan; the Pacific Communications Sciences, Inc. 1987 Stock Option Plan; the PicoPower Technology Inc. Amended 1992 Stock Option Plan; the AudioLogic, Inc. 1992 Stock Option Plan; the Peak Audio, Inc. 2001 Stock Plan; the ShareWave, Inc. 1996 Flexible Stock Incentive Plan; the LuxSonor Semiconductors, Inc. 1995 Stock Option Plan; the Stream Machine Company 1996 Stock Option Plan, 2001 Stock Plan and Nonstatutory Stock Option Grants; and the Cirrus Logic, Inc. 2002 Stock Option Plan of our report dated May 19, 2006, except for Note 1A as to which the date is April 18, 2007, with respect to the consolidated financial statements of Cirrus Logic, Inc., and our reports dated May 19, 2006, except for the effects of the material weakness described in the sixth paragraph, as to which the date is April 16, 2007, with respect to Cirrus Logic, Inc.’s management’s assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Cirrus Logic, Inc., included in this Annual Report on Form 10-K/A for the fiscal year ended March 25, 2006.

/s/ Ernst & Young LLP

Austin, Texas  
April 16, 2007

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CERTIFICATION  
**Pursuant to 18 U.S.C. Section 1350,**  
as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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I, Michael L. Hackworth, certify that:

1. I have reviewed this Amended Annual Report on Form 10-K/A of Cirrus Logic, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or other persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 18, 2007

Signature: /s/ Michael L. Hackworth  
Michael L. Hackworth  
Acting President and Chief Executive Officer

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CERTIFICATION  
**Pursuant to 18 U.S.C. Section 1350,**  
as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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I, Thurman K. Case, certify that:

1. I have reviewed this Amended Annual Report on Form 10-K/A of Cirrus Logic, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or other persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: April 18, 2007

Signature: /s/ Thurman K. Case  
Thurman K. Case  
Chief Financial Officer and Principal Accounting Officer

**Certification Pursuant to 18 U.S.C. Section 1350,**  
as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the amended annual report of Cirrus Logic, Inc. (the “Company”) on Form 10-K/A for the period ended March 25, 2006, as filed with the Securities and Exchange Commission (the “Report”), I, Michael L. Hackworth, Acting Chief Executive Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This Certification has not been, and shall not be deemed, “filed” with the Securities and Exchange Commission.

Date: April 18, 2007

/s/ Michael L. Hackworth  
Michael L. Hackworth  
Acting President and Chief Executive Officer

**Certification Pursuant to 18 U.S.C. Section 1350,**  
**as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the amended annual report of Cirrus Logic, Inc. (the “Company”) on Form 10-K/A for the period ended March 25, 2006, as filed with the Securities and Exchange Commission (the “Report”), I, Thurman K. Case, Chief Financial Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This Certification has not been, and shall not be deemed, “filed” with the Securities and Exchange Commission.

Date: April 18, 2007

/s/ Thurman K. Case  
Thurman K. Case  
Chief Financial Officer and Principal Accounting Officer