CIRRUS LOGIC INC
Form 10-Q
July 20, 2010

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

**FORM 10-Q**

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the quarterly period ended June 26, 2010**

o **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** | **2901 Via Fortuna, Austin, TX 78746** | **77-0024818** |
| **(State of incorporation)** | | **(I.R.S. ID)** |

**Registrant s telephone number, including area code:**
**(512) 851-4000**

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 þ NO o

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer o | Accelerated filer þ | Non-accelerated filer o | Smaller reporting company o |

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

The number of shares of the registrant s common stock, $0.001 par value, outstanding as of July 15, 2010 was 67,744,460.

**CIRRUS LOGIC, INC.**
**FORM 10-Q QUARTERLY REPORT**
**QUARTERLY PERIOD ENDED JUNE 26, 2010**
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## Part I.

## ITEM 1. FINANCIAL STATEMENTS

### CIRRUS LOGIC, INC.
### CONSOLIDATED CONDENSED BALANCE SHEETS
### (in thousands)

| | June 26, 2010 (unaudited) | March 27, 2010 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 46,158 | $ 16,109 |
| Restricted investments | 6,355 | 5,855 |
| Marketable securities | 96,148 | 85,384 |
| Accounts receivable, net | 34,536 | 23,963 |
| Inventories | 42,415 | 35,396 |
| Deferred tax assets | 12,544 | 12,549 |
| Other current assets | 6,112 | 5,599 |
| Total current assets | 244,268 | 184,855 |
| Long-term marketable securities | 13,008 | 34,278 |
| Property and equipment, net | 21,306 | 18,674 |
| Goodwill and intangibles, net | 27,429 | 27,923 |
| Other assets | 1,866 | 1,880 |
| Total assets | $ 307,877 | $ 267,610 |
| **Liabilities and Stockholders Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 28,088 | $ 20,340 |
| Accrued salaries and benefits | 8,685 | 9,962 |
| Other accrued liabilities | 5,845 | 5,100 |
| Deferred income on shipments to distributors | 8,561 | 6,488 |
| Total current liabilities | 51,179 | 41,890 |
| Long-term restructuring accrual | 497 | 596 |
| Other long-term obligations | 6,487 | 6,523 |
| Stockholders equity: | | |
| Capital stock | 966,414 | 952,803 |
| Accumulated deficit | (715,951) | (733,553) |
| Accumulated other comprehensive loss | (749) | (649) |
| Total stockholders equity | 249,714 | 218,601 |
| Total liabilities and stockholders equity | $ 307,877 | $ 267,610 |

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

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

| | Three Months Ended | |
|---|---|---|
| | June 26, 2010 | June 27, 2009 |
| Net sales | $ 81,915 | $ 37,514 |
| Cost of sales | 35,180 | 17,927 |
| Gross margin | 46,735 | 19,587 |
| Operating expenses: | | |
| Research and development | 15,092 | 12,508 |
| Selling, general and administrative | 14,011 | 10,071 |
| Provision (benefit) for litigation expenses and settlements | 135 | (2,745) |
| Total operating expenses | 29,238 | 19,834 |
| Income (loss) from operations | 17,497 | (247) |
| Interest income, net | 228 | 463 |
| Other income (expense), net | 32 | (18) |
| Income before income taxes | 17,757 | 198 |
| Provision (benefit) for income taxes | 155 | (23) |
| Net income | $ 17,602 | $ 221 |
| Basic income per share: | $ 0.26 | $ |
| Diluted income per share: | $ 0.25 | $ |
| Basic weighted average common shares outstanding: | 66,639 | 65,254 |
| Diluted weighted average common shares outstanding: | 70,755 | 65,341 |

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

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**CIRRUS LOGIC, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(in thousands; unaudited)**

| | Three Months Ended June 26, 2010 | Three Months Ended June 27, 2009 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 17,602 | $ 221 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,921 | 2,030 |
| Stock compensation expense | 1,356 | 1,356 |
| Loss on retirement of assets | 53 | |
| Other non-cash charges (benefits) | 7 | (102) |
| Net change in operating assets and liabilities: | | |
| Accounts receivable, net | (10,573) | (3,155) |
| Inventories | (7,019) | (314) |
| Other assets | (517) | 741 |
| Accounts payable and other accrued liabilities | 6,946 | 2,453 |
| Deferred revenues | 2,073 | (177) |
| Income taxes payable | 54 | (52) |
| Net cash provided by operating activities | 11,903 | 3,001 |
| Cash flows from investing activities: | | |
| Additions to property, equipment and software | (3,720) | (395) |
| Investments in technology | (307) | (148) |
| Acquisition of Thaler Corporation assets | | (550) |
| Purchase of marketable securities | (7,786) | (19,442) |
| Proceeds from sale and maturity of marketable securities | 18,192 | 12,838 |
| Increase in restricted investments | (500) | |
| Decrease in deposits and other assets | 12 | 59 |
| Net cash provided by (used in) investing activities | 5,891 | (7,638) |
| Cash flows from financing activities: | | |
| Net proceeds from the issuance of common stock | 12,255 | 75 |
| Net cash provided by financing activities | 12,255 | 75 |
| Net increase (decrease) in cash and cash equivalents | 30,049 | (4,562) |
| Cash and cash equivalents at beginning of period | 16,109 | 31,504 |
| Cash and cash equivalents at end of period | $ 46,158 | $ 26,942 |

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

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**CIRRUS LOGIC, INC.**
**NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**
**(unaudited)**

**1. Basis of Presentation**

The consolidated condensed financial statements have been prepared by Cirrus Logic, Inc. ( we, us, our, or the Company ) pursuant to the rules and regulations of the Securities and Exchange Commission ( Commission ). The accompanying unaudited consolidated condensed financial statements do not include complete footnotes and financial presentations. As a result, these financial statements should be read along with the audited consolidated financial statements and notes thereto for the year ended March 27, 2010, included in our 2010 Annual Report on Form 10-K filed with the Commission on June 1, 2010. In our opinion, the financial statements reflect all adjustments, including normal recurring adjustments, necessary for a fair presentation of the financial position, operating results and cash flows, for those periods presented. The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect reported assets, liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates and assumptions. Moreover, the results of operations for the interim periods presented are not necessarily indicative of the results that may be expected for the entire year.

*Recently Issued Accounting Pronouncements*

In February 2010, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2010-09, *Amendments to Certain Recognition and Disclosure Requirements (*Accounting Standards Codification *ASC Topic 855) Subsequent Events.* The ASU amends the subsequent events disclosure guidance. The amendments include a definition of an SEC filer, require an SEC filer to evaluate subsequent events through the date the financial statements are issued, and remove the requirement for an SEC filer to disclose the date through which subsequent events have been evaluated. ASU 2010-09 was effective upon issuance. The adoption of this guidance required additional disclosures but did not have a material impact on the Company s consolidated results of operations and financial position.

In January 2010, FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (ASC Topic 820) Improving Disclosures About Fair Value Measurements*. The ASU requires new disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The new disclosures and clarifications of existing disclosures were effective for the Company s fourth quarter of fiscal year 2010, except for the disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements, which are not effective until the Company s fourth quarter of fiscal year 2011. The adoption of this guidance with respect to Levels 1 and 2 fair value measurements did not have a material impact on our consolidated financial position, results of operations or cash flows. The adoption of this guidance with respect to Level 3 fair value measurements is not anticipated to have a material impact on our consolidated financial position, results of operations or cash flows.

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**2. Fair Value of Financial Instruments**

The Company adopted certain provisions of FASB ASC Topic 820 as of March 30, 2008, to evaluate the fair value of certain of its financial assets required to be measured on a recurring basis. Under FASB ASC Topic 820, based on the observability of the inputs used in the valuation techniques, the Company is required to provide certain information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 Quoted prices in active markets for identical assets or liabilities.

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

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

As of June 26, 2010, the Company s cash and cash equivalents of $46.2 million and restricted investments, short-term investments, and long-term investments of $115.5 million were valued using quoted prices generated by market transactions involving identical assets, or Level 1 assets, as defined under FASB ASC Topic 820.

The following table summarizes the carrying amount and fair value of the Company s financial instruments (in thousands):

| | June 26, 2010 | | March 27, 2010 | |
|---|---|---|---|---|
| Financial instruments | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Cash and cash equivalents | $ 46,158 | $ 46,158 | $ 16,109 | $ 16,109 |
| Restricted investments | 6,355 | 6,355 | 5,855 | 5,855 |
| Marketable securities | 96,148 | 96,148 | 85,384 | 85,384 |
| Long-term marketable securities | 13,008 | 13,008 | 34,278 | 34,278 |
| | $ 161,669 | $ 161,669 | $ 141,626 | $ 141,626 |

Financial assets and liabilities with carrying amounts approximating fair value include cash and cash equivalents, restricted investments, and marketable securities. The carrying amount of these financial assets and liabilities approximates fair value because of their short maturity. The fair values of long-term marketable securities are valued using quoted prices generated by market transactions involving identical assets.

The Company s investments that have original maturities greater than 90 days have been classified as available-for-sale securities in accordance with ASC Topic 320. Marketable securities are categorized on the consolidated condensed balance sheet as restricted investments and marketable securities, as appropriate.

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The following table shows the gross unrealized losses and fair value of the Company s available-for-sale securities, aggregated by investment category at June 26, 2010 (in thousands):

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value (Net Carrying Amount) |
|---|---|---|---|---|
| Corporate securities U.S. | $ 55,343 | $ 49 | $ (81) | $ 55,311 |
| U.S. Government securities | 38,371 | 34 | (2) | 38,403 |
| Agency discount notes | 13,888 | 16 | | 13,904 |
| Commercial paper | 7,888 | 5 | | 7,893 |
| Total securities | $ 115,490 | $ 104 | $ (83) | $ 115,511 |

The Company s specifically identified gross unrealized losses of $83 thousand relates to twenty-six different securities with amortized costs of approximately $32.2 million at June 26, 2010. Because the Company does not intend to sell the investments at a loss and the Company will not be required to sell the investments before recovery of its amortized cost basis, it does not consider the investment in these securities to be other-than-temporarily impaired at June 26, 2010. Further, the securities with gross unrealized losses have been in a continuous unrealized loss position for less than 12 months as of June 26, 2010.

The following table shows the gross unrealized losses and fair value of the Company s available-for-sale securities, aggregated by investment category at March 27, 2010 (in thousands):

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value (Net Carrying Amount) |
|---|---|---|---|---|
| Corporate securities U.S. | $ 57,283 | $ 133 | $ (55) | $ 57,361 |
| U.S. Government securities | 44,423 | 44 | (6) | 44,461 |
| Agency discount notes | 15,946 | 7 | (7) | 15,946 |
| Commercial paper | 7,744 | 5 | | 7,749 |
| Total securities | $ 125,396 | $ 189 | $ (68) | $ 125,517 |

The Company s specifically identified gross unrealized losses of $68 thousand relates to thirty different securities with a total amortized cost of approximately $46.2 million at March 27, 2010. Because the Company does not intend to sell the investments at a loss and the Company will not be required to sell the investments before recovery of its amortized cost basis, it did not consider the investment in these securities to be other-than-temporarily impaired at March 27, 2010. Further, the securities with gross unrealized losses had been in a continuous unrealized loss position for less than 12 months as of March 27, 2010.

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**3. Accounts Receivable, net**

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

| | June 26, 2010 | March 27, 2010 |
|---|---|---|
| Gross accounts receivable | $ 34,918 | $ 24,451 |
| Allowance for doubtful accounts | (382) | (488) |
| | $ 34,536 | $ 23,963 |

The increase in accounts receivable balances at June 26, 2010, as compared to March 27, 2010, is consistent with revenue growth experienced during the first quarter of fiscal year 2011 versus the end of fiscal year 2010.

**4. Inventories**

Inventories are comprised of the following (in thousands):

| | June 26, 2010 | March 27, 2010 |
|---|---|---|
| Work in process | $ 19,557 | $ 18,016 |
| Finished goods | 22,858 | 17,380 |
| | $ 42,415 | $ 35,396 |

The increase in inventory balances at June 26, 2010, as compared to March 27, 2010, is related primarily to increased demand forecasts for our products, and reflects planned inventory builds.

**5. Income Taxes**

We recorded income tax expense of $155 thousand for the first quarter of fiscal year 2011, yielding an effective tax rate of 0.9 percent. Our income tax expense for the first quarter of fiscal year 2011 was based on an estimated effective tax rate, which was derived from an estimate of consolidated earnings before taxes for fiscal year 2011. The estimated effective tax rate was impacted primarily by the worldwide mix of consolidated earnings before taxes and an assessment regarding the realizability of our deferred tax assets. Our income tax expense for the first quarter of fiscal year 2011 was less than the Federal statutory rate primarily as a result of the utilization of a portion of our U.S. deferred tax asset and related valuation allowance.

We recorded a net income tax benefit of $23 thousand for the first quarter of fiscal year 2010, yielding an effective tax benefit rate of 11.6 percent. Our income tax benefit for the first quarter of fiscal year 2010 is based on an estimated effective tax rate, which was derived from an estimate of consolidated earnings before taxes for fiscal year 2010. The estimated effective tax rate was impacted primarily by the worldwide mix of consolidated earnings before taxes and an assessment regarding the realizability of our deferred tax assets. Our income tax benefit for the first quarter of fiscal year 2010 was less than the Federal statutory rate primarily as a result of the utilization of a portion of our U.S. deferred tax asset and related valuation allowance.

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We had $0.1 million of unrecognized tax benefits as of June 26, 2010. There were no changes to the unrecognized tax benefits during the three months ended June 26, 2010. All of the unrecognized tax benefits are associated with tax carryforwards that, if recognized, would have no effect on the effective tax rate because the recognition of the associated deferred tax asset would be offset by an increase to the valuation allowance. We do not expect that our unrecognized tax benefits will change significantly in the next 12 months. Our policy is to recognize interest and penalties related to income tax matters in income tax expense. As of June 26, 2010, the balance of accrued interest and penalties was zero. No interest or penalties were incurred during the first quarter of fiscal year 2011.

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax in multiple state and foreign jurisdictions. The fiscal years 2006 through 2010 remain open to examination by the major taxing jurisdictions to which we are subject.

**6. Acquisitions**

On December 8, 2008, we executed an asset purchase agreement with Thaler Corporation of Tucson, Arizona, an entity specializing in the manufacture of precision analog and mixed signal devices. The purchase price of the acquisition was $1.1 million, which consisted primarily of intangible assets and inventory. The intangible assets, which were $0.8 million of the purchase price, are being amortized over a period of 5 years. Fifty percent of the purchase price, or $550 thousand, was paid in cash at closing, and the remaining balance was paid on April 8, 2009.

**7. Provision (Benefit) for Litigation Expenses and Settlements**

During the first quarter of fiscal year 2011, the Company incurred $135 thousand in settlement costs related to a dispute with a former distributor of the Company s products. The transaction is reflected as a separate line item on the consolidated condensed statement of operations in operating expenses under the caption *Provision (benefit) for litigation expenses and settlements.*

On June 17, 2009, during the first quarter of fiscal year 2010, the Company received net proceeds of $2.7 million from its insurance carrier as part of the final settlement of the derivative lawsuits. On January 5, 2007, a purported stockholder had filed a derivative lawsuit 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. On March 13, 2009, a Revised Stipulation of Settlement, representing settlement terms as agreed to by the parties, was filed with the federal court. On May 28, 2009 the Court entered judgment thereon, which included the payment by the Company s Directors and Officers insurer of $2.85 million to the Company. The net proceeds of $2.7 million were recorded as a recovery of costs previously incurred in accordance with FASB ASC Topic 450, *Contingencies.* The transaction is reflected as a separate line item on the consolidated condensed statement of operations in operating expenses under the caption *Provision (benefit) for litigation expenses and settlements.*

**8. Restructuring and Other Costs**

The Company s remaining restructuring initiative relates to our facilities abandonment activities commenced in fiscal year 2004. For the first three months of fiscal year 2011, we recorded a net reduction to the fiscal year 2004 restructuring accrual in the amount of $0.3 million, net of recurring cash payments and accretion activities. As of June 26, 2010, we had a remaining accrual from all of our past restructurings of $1.0 million, primarily related to net lease expenses that will be paid over the lease terms through fiscal year 2013, along with other anticipated lease termination costs. We have classified $0.5 million of this restructuring accrual as long-term.

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**9. Earnings Per Share**

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

The weighted average outstanding options excluded from our diluted calculation for the quarters ended June 26, 2010, and June 27, 2009, were 620,000, and 8,536,000, respectively, as the exercise price of the options exceeded the average market price during the respective periods.

**10. Legal Matters**

*Silvaco Data Systems*

On December 8, 2004, Silvaco Data Systems ( Silvaco ) filed suit against us, and others, in Santa Clara County Superior Court (the Court ), 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 supplied 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.

On July 5, 2007, the Court granted our motion for judgment on the pleadings, determining that all claims except for the misappropriation of trade secrets claims were pre-empted by trade secret law. On October 15, 2007, the Court granted our motion for summary judgment on the trade secret misappropriation claim because we presented undisputed evidence that Silvaco will be unable to prove that Cirrus misappropriated Silvaco s trade secrets.

On February 12, 2008, we settled our cross-complaint against Silvaco, whereby Silvaco agreed to pay Cirrus $30,000 as full and final restitution of all claims that could have been alleged in the cross-complaint.

Based on these orders and the settlement of the cross-complaint, the Court entered judgment in our favor on Silvaco s complaint and our cross-complaint on March 4, 2008. As a result of the favorable judgment, on May 16, 2008, the court awarded approximately $59,000 for our expenses in defending the suit.

On April 7, 2008, Silvaco filed a notice of appeal on these matters. The appeal was heard by the Court of Appeal of the State of California, Sixth Appellate District on April 13, 2010. On April 29, 2010, the appellate court affirmed the judgment of the district court, finding that the district court did not err by granting summary judgment in favor of Cirrus Logic. On June 8, 2010, Silvaco filed a petition for review with the California Supreme Court. The California Supreme Court has until August 6, 2010 to decide to either grant the petition or to allow itself an additional 30 days to consider the matter. Failing either of those actions, the petition will be deemed denied and the matter will be resolved.

*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 our industry. As to any of these claims or litigation, we cannot predict the ultimate outcome with certainty.

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**11. Stockholder s Equity**

*Common Stock*

The Company issued 2.0 million shares of common stock in connection with stock option exercises during the three month period ended June 26, 2010.

*Comprehensive Income*

The components of comprehensive income, net of tax, are as follows (in thousands):

| | Three Months Ended | |
|---|---|---|
| | June 26, 2010 | June 27, 2009 |
| Net income | $ 17,602 | $ 221 |
| Adjustments to arrive at comprehensive income: | | |
| Change in unrealized gains on marketable securities | (100) | 90 |
| Comprehensive income | $ 17,502 | $ 311 |

Realized gains and losses on the sale of available-for-sale securities are included on the consolidated condensed statement of operations in operating expenses under the caption *Interest income, net.*

*Share Repurchase Program*

On January 29, 2009, we publicly announced that our Board authorized a share repurchase program of up to $20 million. Repurchases will be funded from existing cash and may be effected from time to time depending on general market and economic conditions and in accordance with applicable securities laws. As of June 26, 2010, no share repurchases have occurred under this share repurchase program.

**12. Segment Information**

We are focused on becoming a leader in high-precision analog and mixed-signal ICs for a broad range of audio and energy markets. We sell audio converters, audio interface devices, audio processors and audio amplification products for these markets, as well as hybrids and modules for high-power applications. 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 FASB ASC Topic 280, *Segment Reporting.* Our Chief Executive Officer ( CEO ) has been identified as the chief operating decision maker as defined by FASB ASC Topic 280.

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. Therefore, there is no complete, discrete financial information maintained for these product lines. We report revenue in two product categories: audio products and energy products.

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In accordance with FASB ASC Topic 280, below is a summary of our net sales by product line (in thousands):

| | Three Months Ended | |
|---|---|---|
| | June 26, 2010 | June 27, 2009 |
| Audio Products | $ 53,988 | $ 24,787 |
| Energy Products | 27,927 | 12,727 |
| | $ 81,915 | $ 37,514 |

## ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read along with the unaudited consolidated condensed financial statements and notes thereto included in Item 1 of this Quarterly Report on Form 10-Q, as well as the audited consolidated financial statements and notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended March 27, 2010, contained in our 2010 Annual Report on Form 10-K filed with the Securities and Exchange Commission ( Commission ) on June 1, 2010. We maintain a web site at *www.cirrus.com,* which makes available free of charge our recent annual report and all other filings we have made with the SEC. This Management s Discussion and Analysis of Financial Condition and Results of Operations 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 Exchange Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are based on current expectations, estimates, forecasts and projections and the beliefs and assumptions of our management. In some cases, forward-looking statements are identified by words such as expect, anticipate, target, project, believe, goals, intend and variations of these types of words and similar expressions which are intended to identify these forward-looking statements. 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. We undertake no obligation to revise or update publicly any forward-looking statement for any reason. 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* in our 2010 Annual Report on Form 10-K filed with the Commission on June 1, 2010, as well as *Item 1A Risk Factors* in this Quarterly Report on Form 10-Q for the period ended June 26, 2010. Readers should carefully review these risk factors, as well as those identified in the documents filed by us with the Commission.

### Overview

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 audio and energy markets. Building on our diverse analog mixed-signal patent portfolio, Cirrus Logic delivers highly optimized products for consumer and commercial audio, automotive entertainment and targeted industrial and energy-related applications. We develop ICs, board-level modules and hybrids for high-power amplifier applications branded as the Apex Precision Power ( Apex ) line of products and 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.

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***Critical Accounting Policies***

Our discussion and analysis of the Company s financial condition and results of operations are based upon the consolidated condensed 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, and our stock option granting practices; 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. There were no material changes in the first three months of fiscal year 2011 to the information provided under the heading *Critical Accounting Policies* included in our Annual Report on Form 10-K for the fiscal year ended March 27, 2010, which was filed with the Commission on June 1, 2010.

**Results of Operations**

The following table summarizes the results of our operations for the first quarter of fiscal years 2011 and 2010 as a percent of net sales. All percent amounts were calculated using the underlying data in thousands, unaudited:

| | Percentage of Net Sales Three Months Ended | |
|---|---|---|
| | **June 26, 2010** | **June 27, 2009** |
| Audio products | 66% | 66% |
| Energy products | 34% | 34% |
| Net sales | 100% | 100% |
| Cost of sales | 43% | 48% |
| Gross margin | 57% | 52% |
| Research and development | 18% | 33% |
| Selling, general and administrative | 17% | 27% |
| Provision (benefit) for litigation expenses and settlements | 1% | (7%) |
| Total operating expenses | 36% | 53% |
| Income (loss) from operations | 21% | (1%) |
| Interest income, net | 1% | 1% |
| Other income (expense), net | | |
| Income before income taxes | 22% | 0% |
| Provision (benefit) for income taxes | 1% | |
| Net income | 21% | 0% |

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*Net Sales*

Net sales for the first quarter of fiscal year 2011 increased $44.4 million, or 118 percent, to $81.9 million from $37.5 million for the first quarter of fiscal year 2010. Net sales from our audio products increased $29.2 million, or 118 percent, as compared to the comparable period from the prior fiscal year. These increases were distributed across the entire audio product line, primarily associated with portable products, surround codec products, digital to audio convertor ( DAC ) products, and digital signal processing ( DSP ) products. Energy product sales increased $15.2 million, or 119%, during the first quarter of fiscal year 2011 versus the comparable quarter of the prior fiscal year. These increases were distributed across the entire energy product line, with the primary drivers of increased sales being attributable to power meter, seismic, and power amplifier products.

Export sales, principally to Asia, including sales to U.S. based customers with manufacturing plants overseas, were 80 percent and 77 percent of net sales during the first quarter of fiscal years 2011 and 2010, 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.

Since the components we produce are largely proprietary and generally not available from second sources, we consider our end customer to be the entity specifying the use of our component in their design. These end customers may then purchase our products directly from us, from an external sales representative or distributor, or through a third party manufacturer contracted to produce their products. For the first quarter of fiscal years 2011 and 2010, our ten largest end customers represented approximately 54 percent and 45 percent of our sales, respectively. We had one end customer, Apple Inc., that purchased through multiple contract manufacturers and represented approximately 34 percent and 27 percent of the Company s total sales for the first three months of fiscal years 2011 and 2010, respectively. One such contract manufacturer, Futaihua Industrial, represented 21 percent of net sales for the three month period ending June 26, 2010. Further, we had one distributor, Avnet Inc., which represented 29 percent and 28 percent of our sales for the first three months of fiscal years 2011 and 2010, respectively. No other customer or distributor represented more than 10 percent of net sales for the first three months of fiscal years 2011 and 2010.

*Gross Margin*

Gross margin was 57.1 percent in the first quarter of fiscal year 2011, up from 52.2 percent in the first quarter of fiscal year 2010. The increase in gross margin was driven by changes in customer and product mix, and reflects growth in certain higher margin products within our energy product line coupled with margin improvements in certain products within our audio product line.

*Research and Development Expense*

Research and development expense for the first quarter of fiscal year 2011 was $15.1 million, an increase of $2.6 million, or 20.7 percent, from $12.5 million in the first quarter of fiscal year 2010. This increase was primarily due to an increase in research and development headcount and associated employee related expenses, as the Company took advantage of opportunities in the labor market to add to its engineering talent. This increase is also related to higher product development expenses.

*Selling, General and Administrative Expense*

Selling, general and administrative expense in the first quarter of fiscal year 2011 was $14.0 million, an increase of $3.9 million, or 39.1 percent, from $10.1 million in the first quarter of fiscal year 2010. The increase was primarily attributable to employee related expenses, sales commissions, and expenses related to the reorganization of our international sales force to better align resources with our customer base. These increases were partially offset by decreased occupancy expenses, primarily attributable to a net reduction of leased office space in the first quarter of fiscal year 2011 as compared to the corresponding period for fiscal year 2010.

*Provision (Benefit) for Litigation Expenses and Settlements*

During the first quarter of fiscal year 2011, the Company incurred $135 thousand in settlement costs related to a dispute with a former distributor of the Company s products. The transaction is reflected as a separate line item on the consolidated condensed statement of operations in operating expenses under the caption *Provision (benefit) for litigation expenses and settlements.*

On June 17, 2009, during the first quarter of fiscal year 2010, the Company received proceeds of a net $2.7 million from its insurance carrier as part of the final settlement of the derivative lawsuits, as further described in Note 7 *Provision (Benefit) for Litigation Expenses and Settlements.* The proceeds of $2.7 million were recorded as a recovery of costs previously incurred in accordance with FASB ASC Topic 450, *Contingencies.* The transaction is reflected as a separate line item on the consolidated condensed statement of operations in operating expenses under the caption *Provision (benefit) for litigation expenses and settlements.*

*Interest Income*

Interest income in the first three months of fiscal years 2011 and 2010 was $0.2 million and $0.5 million respectively. The decrease in interest income in the first quarter of fiscal year 2011 compared to the first quarter of fiscal year 2010 was attributable to lower yields on invested capital. Average invested capital balances on which interest was earned were $151.6 million and $121.3 million for the first quarter of fiscal years 2011 and 2010, respectively.

*Income Taxes*

We recorded income tax expense of $155 thousand for the first quarter of fiscal year 2011, yielding an effective tax rate of 0.9 percent. Our income tax expense for the first quarter of fiscal year 2011 was based on an estimated effective tax rate which was derived from an estimate of consolidated earnings before taxes for fiscal year 2011. The estimated effective tax rate was impacted primarily by the worldwide mix of consolidated earnings before taxes and an assessment regarding the realizability of our deferred tax assets. Our income tax expense for the first quarter of fiscal year 2011 was less than the Federal statutory rate primarily as a result of the utilization of a portion of our U.S. deferred tax asset and related valuation allowance.

We recorded a net income tax benefit of $23 thousand for the first quarter of fiscal year 2010, yielding an effective tax benefit rate of 11.6 percent. Our income tax benefit for the first quarter of fiscal year 2010 was based on an estimated effective tax rate, which was derived from an estimate of consolidated earnings before taxes for fiscal year 2010. The estimated effective tax rate is impacted primarily by the worldwide mix of consolidated earnings before taxes and an assessment regarding the realizability of our deferred tax assets. Our income tax benefit for the first quarter of fiscal year 2010 was less than the Federal statutory rate primarily as a result of the utilization of a portion of our U.S. deferred tax asset and related valuation allowance.

*Recently Issued Accounting Pronouncements*

In February 2010, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2010-09, *Amendments to Certain Recognition and Disclosure Requirements (*Accounting Standards Codification *ASC Topic 855) Subsequent Events.* The ASU amends the subsequent events disclosure guidance. The amendments include a definition of an SEC filer, require an SEC filer to evaluate subsequent events through the date the financial statements are issued, and remove the requirement for an SEC filer to disclose the date through which subsequent events have been evaluated. ASU 2010-09 was effective upon issuance. The adoption of this guidance required additional disclosures but did not have a material impact on the Company s consolidated results of operations and financial position.

In January 2010, FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (ASC Topic 820) Improving Disclosures About Fair Value Measurements.* The ASU requires new disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The new disclosures and clarifications of existing disclosures were effective for the Company s fourth quarter of fiscal year 2010, except for the disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements, which are not effective until the Company s fourth quarter of fiscal year 2011. The adoption of this guidance with respect to Levels 1 and 2 fair value measurements did not have a material impact on our consolidated financial position, results of operations or cash flows. The adoption of this guidance with respect to Level 3 fair value measurements is not anticipated to have a material impact on our consolidated financial position, results of operations or cash flows.

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**Liquidity and Capital Resources**

Net cash provided by operating activities was $11.9 million for the first quarter of fiscal year 2011 as compared to $3.0 million for the first quarter of fiscal year 2010. The primary increase in cash from operations was related to the cash components of our net income, coupled with a $6.9 million increase in accounts payable and other accrued liabilities. These increases in cash from operations were partially offset by increases in accounts receivable of $10.6 million and inventory of $7.0 million.

Net cash provided by investing activities was $5.9 million during the first three months of fiscal year 2011 as compared to net cash used in investing activities of $7.6 million during the first three months of fiscal year 2010, primarily as a result of $10.4 million received in net proceeds from the sale of available-for-sale securities. Partially offsetting this source of cash were purchases of property, equipment, software, and technology assets amounting to $4.0 million.

Net cash provided by financing activities was $12.3 million during the first three months of fiscal year 2011 as compared to $0.1 million during the first three months of fiscal year 2010, and was primarily attributable to the issuance of 2.0 million shares of common stock in connection with option exercises.

As of June 26, 2010, we had restricted cash of $6.4 million, which primarily secures certain obligations under our lease agreement for the headquarters and engineering facility in Austin, Texas. The cash restriction for this lease agreement expires in September 2011. The current restricted cash balance was increased in the first three months of fiscal year 2011 for a required $0.5 million payment under our Purchase and Sale Agreement with Fortis Communities-Austin, L.P. relating to the purchase by the Company of certain real property for a planned new headquarters facility. Pursuant to the Purchase Agreement, the Company agreed to purchase the land for $9.62 million, and we expect to complete this transaction during the second quarter of fiscal year 2011.

We have not paid cash dividends on our common stock and currently intend to continue our policy of retaining any earnings for reinvestment in our business. Although we cannot give assurance 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.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks associated with interest rates on our debt securities, currency movements on non-U.S. dollar denominated assets and liabilities, and the affect of market factors on the value of our non-marketable equity securities. We assess these risks on a regular basis and have established policies that are designed to protect against the adverse effects of these and other potential exposures. There have been no significant changes in our interest rate or foreign exchange risk since we filed our 2010 Annual Report on Form 10-K on June 1, 2010.

## ITEM 4. CONTROLS AND PROCEDURES

*Evaluation of disclosure controls and procedures*

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as of June 26, 2010, our disclosure controls and procedures were effective at providing reasonable assurance that information required to be disclosed by us in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and forms and that our controls and procedures are effective in timely alerting them to material information required to be included in this report.

*Changes in control over financial reporting*

There has been no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

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# PART II

## ITEM 1. LEGAL PROCEEDINGS

*Silvaco Data Systems*

On December 8, 2004, Silvaco Data Systems ( Silvaco ) filed suit against us, and others, in Santa Clara County Superior Court (the Court ), 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 supplied 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.

On July 5, 2007, the Court granted our motion for judgment on the pleadings, determining that all claims except for the misappropriation of trade secrets claims were pre-empted by trade secret law. On October 15, 2007, the Court granted our motion for summary judgment on the trade secret misappropriation claim because we presented undisputed evidence that Silvaco will be unable to prove that Cirrus misappropriated Silvaco s trade secrets.

On February 12, 2008, we settled our cross-complaint against Silvaco, whereby Silvaco agreed to pay Cirrus $30,000 as full and final restitution of all claims that could have been alleged in the cross-complaint.

Based on these orders and the settlement of the cross-complaint, the Court entered judgment in our favor on Silvaco s complaint and our cross-complaint on March 4, 2008. As a result of the favorable judgment, on May 16, 2008, the court awarded approximately $59,000 for our expenses in defending the suit.

On April 7, 2008, Silvaco filed a notice of appeal on these matters. The appeal was heard by the Court of Appeal of the State of California, Sixth Appellate District on April 13, 2010. On April 29, 2010, the appellate court affirmed the judgment of the district court, finding that the district court did not err by granting summary judgment in favor of Cirrus Logic. On June 8, 2010, Silvaco filed a petition for review with the California Supreme Court. The California Supreme Court has until August 6, 2010 to decide to either grant the petition or to allow itself an additional 30 days to consider the matter. Failing either of those actions, the petition will be deemed denied and the matter will be resolved.

*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 our industry. As to any of these claims or litigation, we cannot predict the ultimate outcome with certainty.

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**ITEM 1A. RISK FACTORS**

In evaluating all forward-looking statements, readers should specifically consider risk factors that may cause actual results to vary from those contained in the forward-looking statements. Various risk factors associated with our business are included in our Annual Report on Form 10-K for the fiscal year ended March 27, 2010, as filed with the U.S. Securities and Exchange Commission ( Commission ) on June 1, 2010 and available at www.sec.gov. There have been no material changes to those risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended March 27, 2010, which was filed with the Commission on June 1, 2010.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On January 29, 2009, we announced that our Board authorized a share repurchase program of up to $20 million. The repurchases would be funded from existing cash and may be effected from time to time depending on general market and economic conditions and in accordance with applicable securities laws. No share repurchases under this program have occurred as of June 26, 2010.

**ITEM 6. 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 | Amended and Restated Bylaws of Registrant. (2) |
| 10.1* | Second Amendment to Purchase and Sale Agreement by and between Fortis Communities-Austin L.P. and Registrant dated June 7, 2010. |
| 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. |

* Filed with this Form 10-Q.

\# Not considered to be filed for the purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section.

(1) Incorporated by reference to exhibit 3.1 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 to exhibit 3.1 from Registrant s Report of Form 8-K filed with the Commission on September 21, 2005.

**SIGNATURE**

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

CIRRUS LOGIC, INC.

Date: July 20, 2010

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