

CIRRUS LOGIC INC  
Form 10-Q/A  
April 18, 2007

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

**FORM 10-Q/A**

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

**For the quarterly period ended June 24, 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.**

**(Exact name of registrant as specified in its charter)**

**DELAWARE**

**(State or other jurisdiction of  
incorporation or organization)**

**77-0024818**

**(I.R.S. Employer  
Identification No.)**

**2901 Via Fortuna Austin, Texas**

**(Address of principal executive offices)**

**78746**

**(Zip Code)**

**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  NO

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 Exchange Act). YES  NO

The number of shares of the registrant's common stock, \$0.001 par value, outstanding as of March 31, 2007 was 88,163,467.

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**EXPLANATORY NOTE**

Cirrus Logic, Inc. ( Cirrus, We, Us, Our, or the Company ) is filing this Amendment No.1 ( Form 10-Q/A quarterly report on Form 10-Q for the three months ended June 24, 2006 ( the Original Filing ) as filed with the Securities and Exchange Commission (the Commission ) on July 31, 2006 to restate our:

Consolidated balance sheets for the three months ended June 24, 2006 and March 25, 2006;

Consolidated statements of operations and cash flows for the three months ended June 24, 2006 and June 25, 2005; and

Related disclosures.

These items are being restated to reflect the recognition of \$32.3 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 \$32.3 million. The restatement had no net effect on the consolidated statement of cash flows. A detailed discussion of the financial effects of these matters is also included in Item 2 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;

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.

Concurrent with this filing, we have also separately amended our annual report on Form 10-K for the fiscal year ended March 25, 2006. This Form 10-Q/A should be read in conjunction with that Form 10-K/A as well as the periodic filings made with the Commission subsequent to the date of the Original Filing, including any amendments to those filings, as well as any Current Reports filed on Form 8-K subsequent to the date of the Original Filing. 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-Q/A is as of June 24, 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-Q/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: Financial Statements and Supplementary Data;

Part I Item 2: Management s Discussion and Analysis of Financial Condition and Results of Operations;

Part I Item 4: Controls and Procedures;

Part II Item 1A: Risk Factors;

In accordance with applicable Commission rules, this Form 10-Q/A also includes 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.

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**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 annual stock option grants made to executive officers, employees and non-employee directors, searched relevant physical and electronic documents and interviewed current 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 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 periods 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 \$32.3 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 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 \$32.3 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

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recipients had been finalized. Of the \$32.3 million in additional share-based compensation expense, \$4.2 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 \$32.3 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 \$32.3 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 of the findings 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 all 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

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prior to receiving all required approvals, that any employee, who at the time of the grant was an executive officer, has exercised or made any profit 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 8 month investigation into past stock option granting practices.

*Share-Based Compensation Summary*

For all periods beginning prior to March 25, 2006, the expenses below are calculated in accordance with Accounting Principles Board Opinion No. 25 ( APB 25 ) Accounting for Stock Issued to Employees and, for those periods, 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. As of March 26, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123(R) ( SFAS 123(R) ) Accounting for Stock Based Compensation. For all periods beginning on or after that date, our restated consolidated financial statements reflect additional compensation expense to the extent the fair value of the stock option grant on the correct measurement date exceeded the fair value of the stock option grant on the previous measurement date used for financial accounting purposes.

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The additional non-cash compensation expense was amortized over the required service period, generally over the vesting periods of the respective grants. The incremental effect of recognizing additional share-based compensation expense resulting from grants with incorrect measurement dates for the three months ended June 24, 2006 and June 25, 2005 is as follows (in thousands):

	<b>Three Months Ended</b>					
	<b>June 24, 2006</b>			<b>June 25, 2005</b>		
	Previously Filed	Adjustments	Restated	Previously Filed	Adjustments	Restated
Cost of sales	\$ 15	\$ (2)	\$ 13	\$	\$ 1	\$ 1
Research and development	528	(56)	472	15	27	42
Sales, general, and administrative	809	(86)	723		41	41
Effect on Income from continuing operations (before taxes)	1,352	(144)	1,208	15	69	84
Income Tax						
Total share based compensation expense (net of taxes)	\$ 1,352	\$ (144)	\$ 1,208	\$ 15	\$ 69	\$ 84
Share based compensation effects on basic earnings per share	\$ 0.01	\$	\$ 0.01	\$	\$	\$
Share based compensation effects on diluted earnings per share	\$ 0.01	\$	\$ 0.01	\$	\$	\$
Share based compensation effects on operating activities cash flow	\$ 1,352	\$ (144)	\$ 1,208	\$ 15	\$ 69	\$ 84

A summary of the cumulative effect on the components of stockholders' equity resulting from the restatement of share-based compensation as of March 25, 2006 and for the period ending June 24, 2006 is as follows (in thousands):

	Paid-in Capital	Retained Earnings	Unearned Deferred Compensation	Net Impact to Stockholders' Equity
Cumulative Effect, Summary Schedule Fiscal Year 2006 & Prior	32,612	(32,423)	(333)	(144)
First Quarter of Fiscal Year 2007	(84)	144	74	134
Total effect all prior periods	\$ 32,528	\$ (32,279)	\$ (259)	\$ (10)



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The net impact to Stockholder's Equity seen in the table above was, for each period presented, completely offset by a change in accrued liabilities. These were the only adjustments made to our consolidated balance sheet for the periods presented as a result of the restatement. The restatement had no net effect on our consolidated balance sheet. 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 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 2005 & Prior	30,704	30,704
Quarter Ended June 25, 2005	69	69
Quarter Ended September 30, 2005	1,010	1,010
Quarter Ended December 31, 2005	149	149
Quarter Ended March 25, 2006	491	491
Quarter Ended June 24, 2006	(144)	(144)
Total 2006 - 2007 effect	1,575	1,575
Total effect	\$ 32,279	\$ 32,279

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*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-Q/A QUARTERLY REPORT**  
**QUARTERLY PERIOD ENDED JUNE 24, 2006**  
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**CIRRUS LOGIC, INC.**  
**CONSOLIDATED CONDENSED BALANCE SHEET**  
(in thousands)

	<b>June 24, 2006</b>	<b>March 25, 2006</b>
	Restated (unaudited)	Restated
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 103,053	\$ 116,675
Restricted investments	5,755	5,755
Marketable securities	137,123	102,335
Accounts receivable, net	21,518	20,937
Inventories	21,391	18,708
Other current assets	5,634	7,747
 Total current assets	 294,474	 272,157
 Long-term marketable securities	 5,972	 18,703
Property and equipment, net	13,263	14,051
Intangibles, net	2,593	2,966
Non-marketable securities	7,947	7,947
Other assets	3,293	3,217
 Total assets	 \$ 327,542	 \$ 319,041
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 11,943	\$ 14,129
Accrued salaries and benefits	6,813	6,460
Other accrued liabilities	9,704	10,053
Deferred income on shipments to distributors	6,199	7,098
Income taxes payable	1,990	2,228
 Total current liabilities	 36,649	 39,968
 Other long-term obligations	 14,005	 14,803
 Stockholders equity:		
Capital stock	919,339	914,235
Accumulated deficit	(641,250)	(649,075)
Accumulated other comprehensive loss	(1,201)	(890)
 Total stockholders equity	 276,888	 264,270

Total liabilities and stockholders' equity	\$ 327,542	\$ 319,041
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The accompanying notes are an integral part of these consolidated financial statements.

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

	<b>Three Months Ended</b>	
	<b>June</b>	<b>June 25,</b>
	<b>24,</b>	<b>2005</b>
	<b>2006</b>	<b>2005</b>
	Restated	Restated
Net sales	\$ 45,181	\$ 52,822
Cost of sales	18,021	25,523
 Gross Margin	 27,160	 27,299
 Operating expenses:		
Research and development	11,670	13,678
Selling, general and administrative	11,091	14,342
Litigation settlement, net		(24,758)
 Total operating expenses	 22,761	 3,262
 Income (loss) from operations	 4,399	 24,037
Realized gain on marketable securities	193	388
Interest income, net	2,965	1,136
Other income (expense), net	55	(19)
 Income (loss) before income taxes	 7,612	 25,542
Benefit for income taxes	(213)	(366)
 Net income (loss)	 \$ 7,825	 \$ 25,908
 Basic income (loss) per share:	 \$ 0.09	 \$ 0.30
Diluted income (loss) per share:	\$ 0.09	\$ 0.30
 Basic weighted average common shares outstanding:	 87,196	 85,230
Diluted weighted average common shares outstanding:	88,759	86,183

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

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

	<b>Three Months Ended</b>	
	<b>June 24, 2006</b>	<b>June 25, 2005</b>
	Restated	Restated
Cash flows from operating activities:		
Net income	\$ 7,825	\$ 25,908
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,732	2,769
Stock compensation expense	1,342	480
Gain on marketable securities	(193)	(388)
Other non-cash benefits	(511)	(172)
Net change in operating assets and liabilities	(4,701)	5,691
Net cash provided by operating activities	5,494	34,288
Cash flows from investing activities:		
Additions to property, equipment and software	(453)	(243)
Investments in technology	(182)	(425)
Purchase of marketable securities	(52,052)	(65,554)
Proceeds from sale and maturity of marketable securities	29,883	41,978
Increase in restricted investments		(89)
Increase in deposits and other assets	(74)	(313)
Net cash used in investing activities	(22,878)	(24,646)
Cash flows from financing activities:		
Issuance of common stock, net of issuance costs	3,762	1,061
Net cash provided by financing activities	3,762	1,061
Net increase (decrease) in cash and cash equivalents	(13,622)	10,703
Cash and cash equivalents at beginning of period	116,675	79,235
Cash and cash equivalents at end of period	\$ 103,053	\$ 89,938

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

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

**1. Basis of Presentation**

The consolidated 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 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 25, 2006, included in our 2006 amended Annual Report on Form 10-K/A filed with the Commission on April 18, 2007. 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. We maintain a web site at [www.cirrus.com](http://www.cirrus.com), which makes available free of charge our recent annual report and all other filings we have made with the Commission.

*Recently Issued Accounting Pronouncements*

In July 2006, the *Financial Accounting Standards Board* ( FASB ) issued *FASB Interpretation No. 48* ( FIN No. 48 ) *Accounting for Uncertainty in Income Taxes*, which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN No. 48 provides guidance on the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. The accounting provisions of FIN No. 48 will be effective for the Company beginning April 1, 2007. The Company is in the process of determining the effect, if any, that the adoption of FIN No. 48 will have on its financial statements.

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

The Consolidated Financial Statements and the related disclosures for the fiscal quarters ended June 25, 2005 and June 24, 2006 have been restated as described below. In addition, the consolidated balance sheet and the related disclosures for the fiscal year ended March 25, 2006 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 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 annual stock option grants made to executive officers, employees and non-employee directors, searched relevant physical and electronic documents and interviewed current directors, officers and employees. This review included an examination



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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 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 periods 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 \$32.3 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 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 \$32.3 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 \$32.3 million in additional share-based compensation expense, \$4.2 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 \$32.3 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

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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 \$32.3 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 of the findings 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 all 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 made any profit 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.

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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 8 month investigation into past stock option granting practices.

*Share-Based Compensation Summary*

For all periods beginning prior to March 25, 2006, the expenses below are calculated in accordance with Accounting Principles Board Opinion No. 25 ( APB 25 ) Accounting for Stock Issued to Employees and, for those periods, 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. As of March 26, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123(R) ( SFAS 123(R) ) Accounting for Stock Based Compensation. For all periods beginning on or after that date, our restated consolidated financial statements reflect additional compensation expense to the extent the fair value of the stock option grant on the correct measurement date exceeded the fair value of the stock option grant on the previous measurement date used for financial accounting purposes.

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 quarterly share-based compensation adjustments and the related tax effects of all adjustments for fiscal year 2006 and the three months ended June 24, 2006. The increase (decrease) in net income for each type of adjustment is as follows (in thousands):

	<b>Stock-Based Compensation Expense</b>			
			<b>Income Tax</b>	
	<b>Previously Filed</b>	<b>Adjustments</b>	<b>Effect</b>	<b>Restated</b>
		<b>(In thousands)</b>		
Three months ended June 25, 2005	\$ 15	\$ 69	\$	\$ 84
Three months ended September 30, 2005		1,010		1,010
Three months ended December 31, 2005		149		149
Three months ended March 25, 2006		491		491
Year ended March 25, 2006	15	1,719		1,734
Three months ended June 24, 2006	1,352	(144)		1,208

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The incremental effect of recognizing additional share-based compensation expense resulting from grants with incorrect measurement dates for the three months ended June 24, 2006 and June 25, 2005 is as follows (in thousands):

	<b>Three Months Ended</b>					
	<b>June 24, 2006</b>			<b>June 25, 2005</b>		
	Previously Filed	Adjustments	Restated	Previously Filed	Adjustments	Restated
Cost of sales	\$ 15	\$ (2)	\$ 13	\$	\$ 1	\$ 1
Research and development	528	(56)	472	15	27	42
Sales, general, and administrative	809	(86)	723		41	41
Effect on Income from continuing operations (before taxes)	1,352	(144)	1,208	15	69	84
Income Tax						
Total share based compensation expense (net of taxes)	\$ 1,352	\$ (144)	\$ 1,208	\$ 15	\$ 69	\$ 84
Share based compensation effects on basic earnings per share	\$ 0.01	\$	\$ 0.01	\$	\$	\$
Share based compensation effects on diluted earnings per share	\$ 0.01	\$	\$ 0.01	\$	\$	\$
Share based compensation effects on operating activities cash flow	\$ 1,352	\$ (144)	\$ 1,208	\$ 15	\$ 69	\$ 84

**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.

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**Table of Contents****Consolidated Statement of Operations**

The following table presents the impact of the additional stock-based compensation expense-related adjustments on the Company's previously-reported unaudited consolidated statements of operations for the three months ended June 24, 2006 and June 25, 2005:

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

	Three Months Ended June 24, 2006			Three Months Ended June 25, 2005		
	Previously Reported	Adjustments	Restated	Previously Reported	Adjustments	Restated
Net sales	\$ 45,181	\$	\$ 45,181	\$ 52,822	\$	\$ 52,822
Cost of sales	18,023	(2)	18,021	25,522	1	25,523
Gross Margin	27,158	2	27,160	27,300	(1)	27,299
Research and development	11,726	(56)	11,670	13,651	27	13,678
Selling, general and administrative	11,177	(86)	11,091	14,301	41	14,342
Litigation settlement, net				(24,758)		(24,758)
Total operating expenses	22,903	(142)	22,761	3,194	68	3,262
Income (loss) from operations	4,255	144	4,399	24,106	(69)	24,037
Realized gain on marketable securities	193		193	388		388
Interest income, net	2,965		2,965	1,136		1,136
Other income (expense), net	55		55	(19)		(19)
Income (loss) before income taxes	7,468	144	7,612	25,611	(69)	25,542
Benefit for income taxes	(213)		(213)	(366)		(366)
Net income (loss)	\$ 7,681	\$ 144	\$ 7,825	\$ 25,977	\$ (69)	\$ 25,908
Earnings per share:						
Basic	\$ 0.09	\$	\$ 0.09	\$ 0.30	\$	\$ 0.30
Diluted	\$ 0.09	\$	\$ 0.09	\$ 0.30	\$	\$ 0.30
Weighted Average Common Shares Outstanding:						
Basic	87,196		87,196	85,230		85,230
Diluted	88,759		88,759	86,183		86,183





**Table of Contents****Consolidated Balance Sheets**

The net impact of the additional stock-based compensation expense-related adjustments on the Company's previously-reported consolidated balance sheets for fiscal year 2006 and the three months ended June 24, 2006 is as follows (in thousands):

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

	Three Months Ended June 24, 2006			Year Ended March 25, 2006		
	Previously Reported	Adjustments	Restated	Previously Reported	Adjustments	Restated
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 103,053	\$	\$ 103,053	\$ 116,675	\$	\$ 116,675
Restricted investments	5,755		5,755	5,755		5,755
Marketable securities	137,123		137,123	102,335		102,335
Accounts receivable, net	21,518		21,518	20,937		20,937
Inventories	21,391		21,391	18,708		18,708
Other current assets	5,634		5,634	7,747		7,747
Total current assets	294,474		294,474	272,157		272,157
Long-term marketable securities	5,972		5,972	18,703		18,703
Property and equipment, net	13,263		13,263	14,051		14,051
Intangibles, net	2,593		2,593	2,966		2,966
Investment in Magnum Semiconductor	7,947		7,947	7,947		7,947
Other assets	3,293		3,293	3,217		3,217
Total assets	\$ 327,542	\$	\$ 327,542	\$ 319,041	\$	\$ 319,041
<b>Liabilities and Stockholders Equity</b>						
Current liabilities:						
Accounts payable	\$ 11,943	\$	\$ 11,943	\$ 14,129	\$	\$ 14,129
Accrued salaries and benefits	6,813		6,813	6,460		6,460
Other accrued liabilities	9,694	10	9,704	9,909	144	10,053
Deferred income on shipments to distributors	6,199		6,199	7,098		7,098
Income taxes payable	1,990		1,990	2,228		2,228
Total current liabilities	36,639	10	36,649	39,824	144	39,968
	14,005		14,005	14,803		14,803

Other long-term obligations

Stockholders' equity:

Capital stock	887,070	32,269	919,339	881,956	32,279	914,235
Accumulated deficit	(608,971)	(32,279)	(641,250)	(616,652)	(32,423)	(649,075)
Accumulated other comprehensive loss	(1,201)		(1,201)	(890)		(890)
Total stockholders' equity	276,898	(10)	276,888	264,414	(144)	264,270
Total liabilities and stockholders' equity	\$ 327,542	\$	\$ 327,542	\$ 319,041	\$	\$ 319,041

The net impact to Stockholders' Equity seen in the table above was, for each period presented, completely offset by a like change in accrued liabilities. These were the only adjustments made to our consolidated balance sheet for the periods presented as a result of the restatement. The restatement had no net effect on our consolidated balance sheet. 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 capitalized as inventory was negligible.

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**Table of Contents****Cumulative effect on components of stockholders equity**

The following table presents a summary of the cumulative adjustment to those components of stockholders equity that were affected by the restatement as of March 25, 2006 and June 24, 2006 (in thousands):

	Paid-in Capital	Retained Earnings	Unearned Deferred Compensation	Net Impact to Stockholders' Equity
Cumulative Effect, Summary Schedule Fiscal Year 2006 & Prior	32,612	(32,423)	(333)	(144)
First Quarter of Fiscal Year 2007	(84)	144	74	134
Total effect all prior periods	\$ 32,528	\$ (32,279)	\$ (259)	\$ (10)

**Consolidated Statement of Cash Flows**

The following table presents the impact of the additional stock-based compensation expense-related adjustments on the Company's previously-reported consolidated statements of cash flows for the three months ended June 24, 2006 and June 25, 2005:

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

	Three Months Ended June 24, 2006			Three Months Ended June 25, 2005		
	Previously Reported	Adjustments	Restated	Previously Reported	Adjustments	Restated
Cash flows from operating activities:						
Net income	\$ 7,681	\$ 144	\$ 7,825	\$ 25,977	\$ (69)	\$ 25,908
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	1,732		1,732	2,769		2,769
Stock compensation expense	1,352	(10)	1,342	15	465	480
Gain on marketable securities	(193)		(193)	(388)		(388)
Other non-cash benefits	(511)		(511)	(172)		(172)
Net changes in operating assets and liabilities	(4,567)	(134)	(4,701)	6,087	(396)	5,691
Net cash provided by (used in) operating activities	5,494		5,494	34,288		34,288
Cash flows from investing activities:						

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Proceeds from sale of marketable securities	29,883	29,883	41,978	41,978
Purchases of available for sale marketable securities	(52,052)	(52,052)	(65,554)	(65,554)
Purchases of property and equipment	(453)	(453)	(243)	(243)
Investments in technology	(182)	(182)	(425)	(425)
(Increase) decrease in deposits and other assets	(74)	(74)	(313)	(313)
Decrease in restricted investments			(89)	(89)
Net cash used in investing activities	(22,878)	(22,878)	(24,646)	(24,646)
Cash flows from financing activities:				
Issuance of common stock, net of issuance costs	3,762	3,762	1,061	1,061
Net cash provided by financing activities	3,762	3,762	1,061	1,061
Net increase (decrease) in cash and cash equivalents	(13,622)	(13,622)	10,703	10,703
Cash and cash equivalents at beginning of period	116,675	116,675	79,235	79,235
Cash and cash equivalents at end of period	\$ 103,053	\$ 103,053	\$ 89,938	\$ 89,938

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**Table of Contents****2. Stock Based Compensation**

Effective March 26, 2006, the beginning of our fiscal year 2007, the Company adopted the provisions of the FASB *Statement of Financial Accounting Standards No. 123 (R)* ( *SFAS No. 123(R)* ) and, in doing so, consulted the guidance provided in *Staff Accounting Bulletin No. 107* ( *SAB No. 107* ). SFAS No. 123(R) requires stock based compensation to be accounted for under the fair value method and requires the use of an option pricing model for estimating fair value. Accordingly, share-based compensation is measured at grant date, based on the fair value of the award. The Company previously accounted for awards granted under its equity incentive plans under the intrinsic value method prescribed by *Accounting Principles Board Opinion No. 25* ( *APB No. 25* ), *Accounting for Stock Issued to Employees*, and related interpretations, and provided the required pro forma disclosures prescribed by SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended.

Under the modified prospective method of adoption for SFAS No. 123(R), the compensation cost recognized by the Company beginning in fiscal year 2007 includes (a) compensation cost for all equity incentive awards granted prior to, but not yet vested as of March 26, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all equity incentive awards granted subsequent to March 25, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). The Company uses the accelerated method to recognize share-based compensation costs over the service period of the award. Upon exercise, cancellation, or expiration of stock options, deferred tax assets for options with multiple vesting dates are eliminated for each vesting period on a first-in, first-out basis as if each vesting period was a separate award. To calculate the excess tax benefits available for use in offsetting future tax shortfalls as of the date of implementation, the Company followed the guidance in paragraph 81 of SFAS No. 123(R).

We have various stock incentive plans (the *Stock 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 priced at the fair market value of the stock on the date of grant. Options granted to employees are exercisable upon vesting, generally in tranches 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.

Share-based compensation recognized in fiscal year 2007 as a result of the adoption of SFAS No. 123(R), as well as pro forma disclosures according to the original provisions of SFAS No. 123 for periods prior to the adoption of SFAS No. 123(R), use the Black-Scholes option pricing model for estimating fair value of options granted under the Company's equity incentive plans.

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The following table summarizes the effects of share based compensation resulting from the application of SFAS No. 123(R) on cost of goods sold, research and development, sales, general and administrative, income from continuing operations before taxes, and net income after taxes for options granted under the Company's equity incentive plans (in thousands, except per share amounts; unaudited):

	<b>Three Months Ended</b>					
	<b>June 24, 2006</b>			<b>June 25, 2005</b>		
	Previously Filed	Adjustments	Restated	Previously Filed	Adjustments	Restated
Cost of sales	\$ 15	\$ (2)	\$ 13	\$ 15	\$ 1	\$ 1
Research and development	528	(56)	472	15	27	42
Sales, general, and administrative	809	(86)	723		41	41
Effect on Income from continuing operations (before taxes)	1,352	(144)	1,208	15	69	84
Income Tax						
Total share based compensation expense (net of taxes)	\$ 1,352	\$ (144)	\$ 1,208	\$ 15	\$ 69	\$ 84
Share based compensation effects on basic earnings per share	\$ 0.01	\$	\$ 0.01	\$	\$	\$
Share based compensation effects on diluted earnings per share	\$ 0.01	\$	\$ 0.01	\$	\$	\$
Share based compensation effects on operating activities cash flow	\$ 1,352	\$ (144)	\$ 1,208	\$ 15	\$ 69	\$ 84

During the first quarter of fiscal year 2007, we received \$3.8 million from the exercise of options granted under the Company's Stock Plans. As of June 24, 2006, there was \$8.3 million of total unrecognized compensation costs related to stock options granted under the Company's equity incentive plans. The unrecognized compensation cost is expected to be recognized over a weighted average period of 1.4 years.

As of June 24, 2006, approximately 24.7 million shares of common stock were reserved for issuance under the Stock Plans. Additional information with respect to stock option activity is as follows:

		<b>Options Outstanding</b>		
<b>Options Available for Grant</b>	<b>Number of Options</b>	<b>Weighted Average Exercise</b>	<b>Weighted Average Remaining Contractual</b>	<b>Aggregate Intrinsic Value</b>

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	(thousands)	(thousands)	Price	Term	(thousands)
Outstanding at 3/25/2006	17,055	11,960	\$ 8.93		
Shares auth. for issuance	3,473				
Option plans terminated	(7,085)				
Options granted	(33)	33	8.51		
Options exercised		(671)	5.33		
Options cancelled	236	(158)	6.01		
Options expired		(78)	22.21		
Outstanding at 6/24/2006	13,646	11,086	\$ 9.10	6.76	\$ 12,583
Vested and Expected to Vest at 6/24/2006		10,357	\$ 9.27	6.66	\$ 11,803
Exercisable at 6/24/2006		6,997	\$ 10.72	5.67	\$ 6,930

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The following table summarizes information regarding outstanding and exercisable options as of June 24, 2006:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Options (in thousands)	Weighted Average Remaining Contractual Term	Weighted Average Exercise Price	Number of Options (in thousands)	Weighted Average Exercise Price
\$ 0.19 - \$ 2.60	285	6.56	\$ 2.35	182	\$ 2.32
\$ 2.61 - \$ 3.40	764	6.99	3.40	555	3.40
\$ 3.41 - \$ 5.16	2,145	8.24	4.88	875	4.81
\$ 5.17 - \$ 6.97	1,434	7.25	6.56	915	6.58
\$ 6.98 - \$ 9.00	3,284	8.28	7.68	1,301	7.66
\$ 9.01 - \$14.33	1,178	2.68	10.86	1,168	10.87
\$14.34 - \$16.69	1,196	4.74	15.86	1,196	15.86
\$16.70 - \$44.50	800	4.55	25.96	805	25.94
	11,086	6.76	\$ 9.10	6,997	\$ 10.72

As of June 25, 2005, the number of options exercisable was 6.2 million.

Options outstanding that are expected to vest are net of estimated future option forfeitures in accordance with the provisions of SFAS No. 123(R), which are estimated when compensation costs are recognized. Options with a fair value of \$3.8 million and \$1.3 million became vested during the first quarter of fiscal years 2007 and 2006, respectively.

In the first quarter of fiscal year 2006, if we had recorded compensation cost for the Stock Plans based upon the Black-Scholes fair value at the grant date for awards under the Stock Plans consistent with the optional methodology prescribed under SFAS No. 123, the net income and earnings per share would have been as shown below (in thousands, except per share amounts; unaudited):

	Three Months Ended		
	June 25, 2005 Previously Reported	June 25, 2005 Adjustments	June 25, 2005 Restated
Net income	\$ 25,977	\$ (69)	\$ 25,908
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	15	69	84
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of tax related effects	(2,262)	(62)	(2,324)
Proforma net income	\$ 23,730	\$ (62)	\$ 23,668
Basic net income per share	\$ 0.30	\$	\$ 0.30
Proforma basic net income per share	\$ 0.28	\$	\$ 0.28

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Diluted net income per share	\$ 0.30	\$	\$ 0.30
Proforma diluted net income per share	\$ 0.28	\$	\$ 0.27

For purposes of pro forma disclosures, the estimated fair value of the options were amortized to expense over the vesting period (for options) using the accelerated method.

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

	<b>Three Months Ended</b>	
	<b>June 24, 2006</b>	<b>June 25, 2005</b>
<b>Employee Option Plans:</b>		
Expected stock price volatility	40.99%	94.39%
Risk-free interest rate	4.99%	3.70%
Expected life post-vest (in years)	3.61	4.08
<b>Employee Stock Purchase Plan:</b>		
Expected stock price volatility	0.00%	50.00%
Risk-free interest rate	0.00%	3.32%
Expected life post-vest (in years)	0	0.5

In the second quarter of fiscal year 2006, we began to base our expected volatility on implied volatility as management has determined that implied volatility is more reflective of market conditions and a better indicator of expected volatility than historical volatility. We establish implied volatility based on market factors in the five days leading up to the grant date. We do not take any post-grant market information into account when establishing implied volatility. The expected life of options granted is based on the historical lives of all options cancelled or exercised and the expected lives of all options outstanding at June 24, 2006. The Company continues to base the estimate of risk-free rate on the U.S. Treasury yield curve in effect at the time of grant. The Company has not paid cash dividends in recent history and does not currently intend to pay cash dividends. In accordance with SFAS No. 123(R), the Company adjusts share-based compensation on a quarterly basis for changes to the estimate of expected equity award forfeitures based on actual forfeiture experience. The effect of adjusting the forfeiture rate for all expense amortization after March 26, 2006 is recognized in the period the forfeiture estimate is changed.

Using the Black-Scholes option valuation model, the restated weighted average estimated fair values of employee stock options granted for the first quarter of fiscal years 2007 and 2006 was \$3.11 and \$3.08, respectively.

*Employee Stock Purchase Plan*

In March 1989, we adopted the 1989 Employee Stock Purchase Plan ( ESPP ). As of June 24, 2006, 900,000 shares of common stock were reserved for future issuance under this plan. During the first quarter of fiscal year 2007 and 2006 we issued approximately 26,000 and 189,000 shares, respectively, under the ESPP. In fiscal year 2006, the Board approved an amendment to the ESPP eliminating the six-month look back feature of the plan as well as modifying the plan to reduce the discount to 5 percent. This modification became effective for all ESPP options granted under the most recently completed plan period, which ended on June 24, 2006. Therefore, the plan is no longer compensatory. The weighted average estimated fair value for purchase rights granted under the ESPP in the first quarter of fiscal year 2006 was \$1.64.

**Table of Contents****3. Accounts Receivable**

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

	<b>June 24, 2006</b>	<b>March 25, 2006</b>
	(unaudited)	
Gross accounts receivable	\$ 21,656	\$ 21,133
Allowance for doubtful accounts	(138)	(196)
	\$ 21,518	\$ 20,937

**4. Inventories**

Inventories are comprised of the following (in thousands):

	<b>June 24, 2006</b>	<b>March 25, 2006</b>
	(unaudited)	
Work in process	\$ 10,507	\$ 10,662
Finished goods	10,884	8,046
	\$ 21,391	\$ 18,708

**5. Intangibles, net**

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

	<b>As of June 24, 2006</b>		<b>As of March 25, 2006</b>	
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>
		(unaudited)		
Core Technology	\$ 1,390	\$ (798)	\$ 1,390	\$ (759)
License Agreements	440	(253)	440	(240)
Existing Technology	2,730	(2,730)	2,730	(2,686)
Trademarks	320	(320)	320	(320)
Technology Licenses	11,804	(9,990)	11,622	(9,531)
	\$ 16,684	\$ (14,091)	\$ 16,502	\$ (13,536)

Amortization expense for all intangibles in the first quarter of fiscal years 2007 and 2006 was \$0.6 million and \$1.4 million, respectively. The decrease in the amortization expense was the result of the transfer of intangible assets with a gross carrying amount of \$49.1 million and accumulated amortization of \$44.5 million in connection with the sale of assets to Magnum Semiconductor in the first quarter of fiscal year 2006.

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The following table details the estimated aggregate amortization expense for all of our intangibles as of June 24, 2006 for the remainder of fiscal year 2007 and for each of the five succeeding fiscal years (in thousands; unaudited):

For the remainder of the year ended March 31, 2007	\$ 943
For the year ended March 29, 2008	1,055
For the year ended March 28, 2009	327
For the year ended March 27, 2010	250
For the year ended March 26, 2011	18
For the year ended March 25, 2012	

**6. Income Taxes**

We realized a net income tax benefit of \$0.2 million for the first quarter of fiscal year 2007, compared with a net income tax benefit of \$0.4 million for the comparable period of fiscal year 2006. The fiscal year 2007 and 2006 benefits stem primarily from the expiration of the statute of limitations for years in which certain foreign income tax exposures for transfer pricing issues had existed. The fiscal year 2007 benefit is net of non-U.S. income taxes and U.S. alternative minimum tax. Our tax expense for the first quarter of fiscal year 2007 was less than the Federal statutory rate due primarily to the utilization of a portion of our U.S. deferred tax asset, on which there had been placed a full valuation allowance, and the release of certain tax contingency reserves.

Our taxes payable balance is comprised primarily of tax contingencies that are recorded to address exposures involving tax positions we have taken that are subject to challenge by taxing authorities. Our tax contingencies are established based on past experiences and judgments about potential actions by taxing jurisdictions and solely 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.

We account for income taxes in accordance with Statement of Financial Accounting Standard No. 109 ( SFAS 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.

**7. Restructuring and Other Costs**

As of June 24, 2006, we had a remaining accrual from all of our past restructurings of \$6.2 million, primarily related to net lease expenses that will be paid over their respective lease terms through fiscal year 2013, along with other anticipated lease termination costs. We have classified \$4.5 million of this restructuring accrual as long-term.

The following table details the changes in all of our restructuring accruals during the three months ended June 24, 2006 (in thousands; unaudited):

Description	March 25, 2006	Charges to P&L	Cash Payments	Adjustments	June 24, 2006
Severance - fiscal year 2006	\$	\$	\$ (58)	\$	\$ (58)
Facilities abandonment - fiscal year 2006	1,946		(110)		1,836
Facilities abandonment - fiscal year 2004	4,204		(311)	123	4,016
Facilities abandonment - fiscal year 1999	397				397
	\$ 6,547	\$	\$ (479)	\$ 123	\$ 6,191

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**8. 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 as of June 24, 2006 and June 25, 2005 were 4,846,000 and 8,718,000 respectively, as they were anti-dilutive.

**9. Legal Matters**

**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 supplied us with certain software design tools. Silvaco alleges that our use of Circuit Semantics 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 integrated circuits industry. As to any of these claims or litigation, we cannot predict the ultimate outcome with certainty.

**Table of Contents****10. Comprehensive Income**

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

	<b>Three Months Ended</b>	
	<b>June</b>	<b>June 25,</b>
	<b>24,</b>	<b>2005</b>
	<b>2006</b>	<b>2005</b>
	Restated	Restated
	(unaudited)	
Net income	\$ 7,825	\$ 25,908
Adjustments to arrive at comprehensive income:		
Change in unrealized gain (loss) on marketable securities	(118)	127
Reclassification adjustment for realized gains included in net income	(193)	
Comprehensive income	\$ 7,514	\$ 26,035

**11. Segment Information**

We are a premier supplier of high-precision analog and mixed-signal integrated circuits ( ICs ) for a broad range of consumer 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 SFAS 131. 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 June 24, 2006, we have one operating segment with three different product lines.

In accordance with SFAS 131, below is a summary of our net sales by product line (in thousands; unaudited):

	<b>Three Months Ended</b>	
	<b>June</b>	<b>June 25,</b>
	<b>24,</b>	<b>2005</b>
	<b>2006</b>	<b>2005</b>
Mixed-signal audio products	\$ 21,606	\$ 23,379
Embedded products	12,635	12,548
Industrial products	10,940	7,766
Video products		9,129
	\$ 45,181	\$ 52,822

**12. Subsequent Events***Acquisition of Caretta Integrated Circuits*

On December 29th, 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

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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 \$7.5 million paid to Caretta shareholders, \$1.6 million in direct acquisition costs, \$1.4 million in cash paid into an escrow account and \$0.5 million in loan repayment premiums.

*Legal Proceedings*

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.

**ITEM 2. 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-Q/A.

The following discussion should be read along with the unaudited consolidated financial statements and notes thereto included in Item 1 of this Quarterly Report, 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 25, 2006, contained in our Amended 2006 Annual Report on Form 10-K/A filed on April 18, 2007. 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 Cirrus Logic's (we, us, our, or the Company) management including, without limitation, our expectations regarding second quarter sales, gross margins, and combined research and development and selling, general and administrative expenses. 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 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



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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.

### **Restatement of Consolidated Financial Statements**

We are restating our Consolidated Condensed Financial Statements to reflect 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 annual stock option grants made to executive officers, employees and non-employee directors, searched relevant physical and electronic documents and interviewed current 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 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 periods 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 \$32.3 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 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 \$32.3 million in additional share-based compensation expense, \$6.1 million related to these types of errors.

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- 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 \$32.3 million in additional share-based compensation expense, \$4.2 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 \$32.3 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 \$32.3 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 of the findings 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 all 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

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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 made any profit 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 8 month investigation into past stock option granting practices.

*Share-Based Compensation Summary*

For all periods beginning prior to March 25, 2006, the expenses below are calculated in accordance with Accounting Principles Board Opinion No. 25 ( APB 25 ) Accounting for Stock Issued to Employees and, for those periods, 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. As of March 26, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123(R) ( SFAS 123(R) ) Accounting for Stock Based Compensation. For all periods beginning on or after that date, our restated consolidated financial statements reflect additional compensation expense to the extent the fair value of the stock option grant on the correct measurement date exceeded the fair value of the stock option grant on the previous measurement date used for financial accounting purposes.

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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 quarterly share-based compensation adjustments and the related tax effects of all adjustments for fiscal year 2006 and the three months ended June 24, 2006. The increase (decrease) in net income for each type of adjustment is as follows (in thousands):

	<b>Stock-Based Compensation Expense</b>			<b>Income Tax</b>	<b>Restated</b>
	<b>Previously Filed</b>	<b>Adjustments</b>	<b>Effect</b>		
	<b>(In thousands)</b>				
Three months ended June 25, 2005	\$ 15	\$ 69	\$	\$ 84	
Three months ended September 30, 2005		1,010		1,010	
Three months ended December 31, 2005		149		149	
Three months ended March 25, 2006		491		491	
Year ended March 25, 2006	15	1,719		1,734	
Three months ended June 24, 2006	1,352	(144)		1,208	

The incremental effect of recognizing additional share-based compensation expense resulting from grants with incorrect measurement dates for the three months ended June 24, 2006 and June 25, 2005 is as follows (in thousands):

	<b>June 24, 2006</b>			<b>Three Months Ended</b>			<b>June 25, 2005</b>		
	<b>Previously Filed</b>	<b>Adjustments</b>	<b>Restated</b>	<b>Previously</b>			<b>Filed</b>	<b>Adjustments</b>	<b>Restated</b>
Cost of sales	\$ 15	\$ (2)	\$ 13	\$	\$	\$	\$ 1	\$ 1	
Research and development	528	(56)	472	15	27	42			
Sales, general, and administrative	809	(86)	723		41	41			
Effect on Income from continuing operations (before taxes)	1,352	(144)	1,208	15	69	84			
Income Tax									
Total share based compensation expense (net of taxes)	\$ 1,352	\$ (144)	\$ 1,208	\$ 15	\$ 69	\$ 84			
Share based compensation effects on basic earnings per share	\$ 0.01	\$	\$ 0.01	\$	\$	\$			
Share based compensation effects on diluted earnings per share	\$ 0.01	\$	\$ 0.01	\$	\$	\$			

Share based compensation  
effects on operating activities

cash flow	\$ 1,352	\$ (144)	\$ 1,208	\$ 15	\$ 69	\$ 84
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*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.

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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.

**Consolidated Statement of Operations**

The following table represents the impact of the additional stock-based compensation expense-related adjustments on the Company's previously-reported unaudited consolidated statements of operations for the three months ended June 24, 2006 and June 25, 2005:

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

	Three Months Ended June 24, 2006			Three Months Ended June 25, 2005		
	Previously Reported	Adjustments	Restated	Previously Reported	Adjustments	Restated
Net sales	\$ 45,181	\$	\$ 45,181	\$ 52,822	\$	\$ 52,822
Cost of sales	18,023	(2)	18,021	25,522	1	25,523
Gross Margin	27,158	2	27,160	27,300	(1)	27,299
Research and development	11,726	(56)	11,670	13,651	27	13,678
Selling, general and administrative	11,177	(86)	11,091	14,301	41	14,342
Litigation settlement, net				(24,758)		(24,758)
Total operating expenses	22,903	(142)	22,761	3,194	68	3,262
Income (loss) from operations	4,255	144	4,399	24,106	(69)	24,037
Realized gain on marketable securities	193		193	388		388
Interest income, net	2,965		2,965	1,136		1,136
Other income (expense), net	55		55	(19)		(19)
Income (loss) before income taxes	7,468	144	7,612	25,611	(69)	25,542
Benefit for income taxes	(213)		(213)	(366)		(366)
Net income (loss)	\$ 7,681	\$ 144	\$ 7,825	\$ 25,977	\$ (69)	\$ 25,908
Earnings per share:						
Basic	\$ 0.09	\$	\$ 0.09	\$ 0.30	\$	\$ 0.30
Diluted	\$ 0.09	\$	\$ 0.09	\$ 0.30	\$	\$ 0.30
Weighted Average Common Shares Outstanding:						
Basic	87,196		87,196	85,230		85,230

Diluted	88,759	88,759	86,183	86,183
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**Table of Contents****Consolidated Balance Sheets**

The net impact of the additional stock-based compensation expense-related adjustments on the Company's previously-reported consolidated balance sheets for fiscal year 2006 and the three months ended June 24, 2006 is as follows (in thousands):

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

	Three Months Ended June 24, 2006			Year Ended March 25, 2006		
	Previously Reported	Adjustments	Restated	Previously Reported	Adjustments	Restated
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 103,053	\$	\$ 103,053	\$ 116,675	\$	\$ 116,675
Restricted investments	5,755		5,755	5,755		5,755
Marketable securities	137,123		137,123	102,335		102,335
Accounts receivable, net	21,518		21,518	20,937		20,937
Inventories	21,391		21,391	18,708		18,708
Other current assets	5,634		5,634	7,747		7,747
<b>Total current assets</b>	<b>294,474</b>		<b>294,474</b>	<b>272,157</b>		<b>272,157</b>
Long-term marketable securities	5,972		5,972	18,703		18,703
Property and equipment, net	13,263		13,263	14,051		14,051
Intangibles, net	2,593		2,593	2,966		2,966
Investment in Magnum Semiconductor	7,947		7,947	7,947		7,947
Other assets	3,293		3,293	3,217		3,217
<b>Total assets</b>	<b>\$ 327,542</b>	<b>\$</b>	<b>\$ 327,542</b>	<b>\$ 319,041</b>	<b>\$</b>	<b>\$ 319,041</b>
<b>Liabilities and Stockholders Equity</b>						
Current liabilities:						
Accounts payable	\$ 11,943	\$	\$ 11,943	\$ 14,129	\$	\$ 14,129
Accrued salaries and benefits	6,813		6,813	6,460		6,460
Other accrued liabilities	9,694	10	9,704	9,909	144	10,053
Deferred income on shipments to distributors	6,199		6,199	7,098		7,098
Income taxes payable	1,990		1,990	2,228		2,228
<b>Total current liabilities</b>	<b>36,639</b>	<b>10</b>	<b>36,649</b>	<b>39,824</b>	<b>144</b>	<b>39,968</b>
	14,005		14,005	14,803		14,803

Other long-term obligations

Stockholders' equity:

Capital stock	887,070	32,269	919,339	881,956	32,279	914,235
Accumulated deficit	(608,971)	(32,279)	(641,250)	(616,652)	(32,423)	(649,075)
Accumulated other comprehensive loss	(1,201)		(1,201)	(890)		(890)
Total stockholders' equity	276,898	(10)	276,888	264,414	(144)	264,270
Total liabilities and stockholders' equity	\$ 327,542	\$	\$ 327,542	\$ 319,041	\$	\$ 319,041

The adjustments to Stockholders' Equity and other accrued liabilities were the only adjustments made to our consolidated balance sheet for the periods presented 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 capitalized as inventory was negligible.

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**Table of Contents*****Cumulative effect on components of stockholders equity***

The following table presents a summary of the cumulative adjustment to those components of stockholders equity that were affected by the restatement as of March 25, 2006 and June 24, 2006 (in thousands):

	Paid-in Capital	Retained Earnings	Unearned Deferred Compensation	Net Impact to Stockholders Equity
Cumulative Effect, Summary Schedule Fiscal Year 2006 & Prior	32,612	(32,423)	(333)	(144)
First Quarter of Fiscal Year 2007	(84)	144	74	134
Total effect all prior periods	\$ 32,528	\$(32,279)	\$ (259)	\$ (10)

***Consolidated Statement of Cash Flows***

The following table presents the impact of the additional stock-based compensation expense-related adjustments on the Company's previously-reported consolidated statements of cash flows for the three months ended June 24, 2006 and June 25, 2005:

	Three Months Ended June 24, 2006			Three Months Ended June 25, 2005		
	Previously Reported	Adjustments	Restated	Previously Reported	Adjustments	Restated
Cash flows from operating activities:						
Net income	\$ 7,681	\$ 144	\$ 7,825	\$ 25,977	\$ (69)	\$ 25,908
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	1,732		1,732	2,769		2,769
Stock compensation expense	1,352	(10)	1,342	15	465	480
Gain on marketable securities	(193)		(193)	(388)		(388)
Other non-cash benefits	(511)		(511)	(172)		(172)
Net changes in operating assets and liabilities	(4,567)	(134)	(4,701)	6,087	(396)	5,691
Net cash provided by (used in) operating activities	5,494		5,494	34,288		34,288
Cash flows from investing activities:						
Proceeds from sale of marketable securities	29,883		29,883	41,978		41,978

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Purchases of available for sale marketable securities	(52,052)	(52,052)	(65,554)	(65,554)
Purchases of property and equipment	(453)	(453)	(243)	(243)
Investments in technology	(182)	(182)	(425)	(425)
(Increase) decrease in deposits and other assets	(74)	(74)	(313)	(313)
Decrease in restricted investments			(89)	(89)
Net cash used in investing activities	(22,878)	(22,878)	(24,646)	(24,646)
Cash flows from financing activities:				
Issuance of common stock, net of issuance costs	3,762	3,762	1,061	1,061
Net cash provided by financing activities	3,762	3,762	1,061	1,061
Net increase (decrease) in cash and cash equivalents	(13,622)	(13,622)	10,703	10,703
Cash and cash equivalents at beginning of period	116,675	116,675	79,235	79,235
Cash and cash equivalents at end of period	\$ 103,053	\$ 103,053	\$ 89,938	\$ 89,938

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In the first quarter of fiscal year 2006, if we had recorded compensation cost for the Stock Plans based upon the Black-Scholes fair value at the grant date for awards under the Stock Plans consistent with the optional methodology prescribed under SFAS No. 123, the net income and earnings per share would have been as shown below (in thousands, except per share amounts; unaudited):

	<b>Three Months Ended</b>		
	<b>June 25, 2005</b>	<b>June 25, 2005</b>	<b>June 25, 2005</b>
	Previously Reported	Adjustments	Restated
Net income	\$ 25,977	\$ (69)	\$ 25,908
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	15	69	84
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of tax related effects	(2,262)	(62)	(2,324)
Proforma net income	\$ 23,730	\$ (62)	\$ 23,668
Basic net income per share	\$ 0.30	\$	\$ 0.30
Proforma basic net income per share	\$ 0.28	\$	\$ 0.28
Diluted net income per share	\$ 0.30	\$	\$ 0.30
Proforma diluted net income per share	\$ 0.28	\$	\$ 0.27

For purposes of pro forma disclosures, the estimated fair value of the options were amortized to expense over the vesting period (for options) using the accelerated method.

**Overview**

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* in our amended 2006 Annual Report on Form 10-K/A filed with the Securities and Exchange Commission (the Commission) on April 18, 2007. Readers should carefully review these risk factors, as well as those identified in the documents filed by us with the Commission subsequent to the date of this filing, specifically the most recent reports on Form 10-K/A, 10-Q and 8-K, each as it may be amended from time to time.

Cirrus Logic 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, we deliver highly optimized products for consumer and commercial audio, automotive entertainment and industrial applications. We also provide complete system reference designs based on our technology that facilitate our customers' ability to bring products to market in a timely and cost-effective manner.

We develop high-precision, analog and mixed-signal integrated circuits 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.

During the first quarter of fiscal year 2007, we saw an increase in our mixed-signal audio, embedded product and industrial product revenues from the comparable period of the prior year. Overall, however, we saw a decrease in total revenue from the comparable quarter of fiscal year 2006 due to the absence of \$9.1 million in revenues from the

digital video product line, a product line we divested on June 30, 2005.

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Since our divestiture of the video product line assets, we have been able to capitalize on our strengths in analog and mixed-signal IC s by eliminating costs, improving our gross margins, and increasing our free cash flow.

**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 United States 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 gross margin 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.

- § For purposes of calculating 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 to calculate an estimate of implied volatility, the expected term of the option and the expected forfeiture rate. 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. See Note 2 in the Notes to our Consolidated Financials Statements contained in *Item 1 Financial Statements*.
- § Our taxes payable balance is comprised primarily of tax contingencies that are recorded to address exposures involving tax positions we have taken that are subject to challenge by taxing authorities. 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 6 in the Notes to our Consolidated Financial Statements contained in *Item 1 Financial Statements*.
- § 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 to 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 6 in the Notes to our Consolidated Financial Statements contained in *Item 1 Financial Statements*.
- § 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 4 in the Notes to our Consolidated Financial Statements contained in *Item 1 Financial Statements*.
- § 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*





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(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 7 in the Notes to our Consolidated Financial Statements contained in *Item 1 Financial Statements*.

- § Our available-for-sale investments, non-marketable securities and other investments are subject to a periodic impairment review pursuant to *Emerging Issues Task Force 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.
- § 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 1 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 1 Financial Statements*.
- § We are subject to the possibility of loss contingencies for various legal matters. See Note 9 in the Notes to our Consolidated Financial Statements contained in *Item 1 Financial Statements*.



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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.

**Results of Operations**

The following table summarizes the restated results of our operations for the first quarter of fiscal years 2007 and 2006, respectively, as a percent of net sales. All percent amounts were calculated using the underlying data in thousands, unaudited:

	<b>Three Months Ended</b>	
	<b>June 24, 2006</b>	<b>June 25, 2005</b>
	Restated	Restated
Mixed-signal audio products	48%	44%
Embedded products	28%	24%
Industrial products	24%	15%
Video products	0%	17%
Net sales	100%	100%
Cost of sales	40%	48%
Gross Margin	60%	52%
Research and development	26%	26%
Selling, general and administrative	25%	27%
Litigation settlement, net	0%	(47%)
Total operating expenses	51%	6%
Income from operations	9%	46%
Realized gain on marketable securities	1%	1%
Interest income, net	7%	2%
Other income (expense), net	0%	0%
Income before income taxes	17%	49%
Benefit for income taxes	0%	0%
Net income	17%	49%

*Net Sales*

Net sales for the first quarter of fiscal year 2007 decreased \$7.6 million to \$45.2 million from \$52.8 million from the first quarter of fiscal year 2006. Industrial products net sales increased \$3.2 million, or 41 percent, during the first quarter of fiscal year 2007 from the comparable quarter of the prior fiscal year due in large part to an increase in demand for seismic and industrial measurement products. Net sales from our Mixed-Signal products declined \$1.8 million, or 8 percent, due primarily to a decrease in demand for certain digital-to-analog converter products used in low end DVD players. Revenues in the first quarter of fiscal year 2006 included \$9.1 million in revenue from the digital video product line, a product line divested on June 30, 2005.

Export sales, principally to Asia, including sales to U.S.-based customers with manufacturing plants overseas, were 66 percent and 71 percent of net sales during the first quarter of fiscal years 2007 and 2006, 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.

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During the first quarter of fiscal year 2007, Avnet, Inc., a distributor, represented 28 percent of our net sales. During the first quarter of fiscal year 2006 Avnet, Inc. (formerly Memec Group Holdings Limited) and LG Electronics, an end customer, represented 22 percent and 11 percent of our net sales, respectively.

*Gross Margin*

Gross margin was 60.1 percent in the first quarter of fiscal year 2007, up from 51.7 percent in the first quarter of fiscal year 2006. The largest driver of the increase in gross margin related to changes in product mix primarily from the divestiture of the digital video product line, which tended to have lower margins. Additionally, we experienced growth in revenues from the Industrial product line, which tends to generate higher average margins. Gross margins in the first quarter of fiscal year 2006 were negatively impacted by the digital video product line, which had low gross margins and represented 17.3 percent of total revenue. During the first quarter of fiscal year 2007, the sale of products that had been written down in prior periods contributed approximately \$0.7 million, or 2.7 percent of gross margin, compared to a 3.3 percent contribution in the first quarter of fiscal year 2006.

*Research and Development Expense*

Research and development expense for the first quarter of fiscal year 2007 of \$11.7 million decreased approximately \$2.0 million from \$13.7 million in the first quarter of fiscal year 2006. This decrease was primarily due to reduced salaries and benefits costs resulting from reductions in headcount from the prior fiscal year primarily associated with the divestiture of the digital video product line assets. With the adoption of SFAS 123(R), research and development expenses for the first quarter of fiscal year 2007 showed an increase of \$0.4 million in stock compensation expense.

*Selling, General and Administrative Expense*

Selling, general and administrative expense in the first quarter of fiscal year 2007 of \$11.1 million decreased by \$3.2 million from \$14.3 million in the first quarter of fiscal year 2006. This decrease was due to the absence in the first quarter of fiscal year 2007 of a charge taken to facilities expense for a loss contingency on sub-leases entered into during the first quarter of fiscal year 2006 as we sub-leased excess office space for less than our current rent obligations. This decrease was partially offset by an increase of \$0.7 million in stock compensation expense recognized in the first quarter of fiscal year 2007 as a result of our adoption of SFAS 123(R).

*Realized Gain on Marketable Equity Securities*

During the first quarter of fiscal year 2007, we realized a gain of \$0.2 million related to the sale of an investment in Prudential Financial, Inc. During the first quarter of fiscal year 2006, we realized a gain of \$0.4 million related to the sale of our investment in Silicon Laboratories, Inc., which resulted from their acquisition of Cygnal Integrated Products, Inc.

*Interest Income*

Interest income was \$3.0 million for the first quarter of fiscal year 2007 and \$1.1 million for the first quarter of fiscal year 2006. The increase of \$1.9 million was primarily due to increased cash and cash equivalent balances on which interest is earned coupled with higher rates of return on our investment portfolio.

**Table of Contents***Income Taxes*

We realized a net income tax benefit of \$0.2 million for the first quarter of fiscal year 2007, compared with a net income tax benefit of \$0.4 million for the comparable period of fiscal year 2006. The fiscal years 2007 and 2006 benefits stem from the expiration of the statute of limitations for years in which certain foreign income tax exposures for transfer pricing issues had existed. The fiscal year 2007 benefit is net of non-U.S. income taxes and U.S. alternative minimum tax. Our tax expense for the first quarter of fiscal year 2007 was less than the Federal statutory rate due primarily to the utilization of a portion of our U.S. deferred tax asset, on which there had been placed a full valuation allowance, and the release of certain tax contingency reserves.

We account for income taxes in accordance with Statement of Financial Accounting Standard No. 109 ( SFAS 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 deferred tax assets due to uncertainties regarding their realization. We evaluate the realizability of our deferred tax assets on a quarterly basis.

*New Accounting Pronouncements*

Effective March 26, 2006, the beginning of our fiscal year 2007, the Company adopted the provisions of SFAS No. 123(R) and, in doing so, consulted the guidance provided in SAB No. 107. The Company previously accounted for awards granted under its equity incentive plans under the intrinsic value method prescribed by *Accounting Principles Board Opinion No. 25 ( APB No. 25 )*, *Accounting for Stock Issued to Employees*, and related interpretations, and provided the required pro forma disclosures prescribed by SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended. Prior to the adoption of SFAS No. 123(R), based on the terms of the equity awards granted to employees, the Company valued awards under the provisions of APB No. 25 and, therefore, did not recognize any compensation related expenses related to these awards.

In making the transition to this new accounting standard, the Company chose to use the modified prospective approach. Under the modified prospective method of adoption for SFAS No. 123(R), the compensation cost recognized by the Company beginning in fiscal year 2007 includes (a) compensation cost for all equity incentive awards granted prior to, but not yet vested as of March 26, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all equity incentive awards granted subsequent to March 26, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). Using this approach had no effect on our prior period financial statements.

As of June 24, 2006, there was \$8.3 million of total unrecognized compensation costs related to stock options granted under the Stock Plans. The unrecognized compensation cost is expected to be recognized over a weighted average period of 1.4 years.

*Recently Issued Accounting Pronouncements*

In July 2006, the *Financial Accounting Standards Board ( FASB )* issued *FASB Interpretation No. 48 ( FIN No. 48 ) Accounting for Uncertainty in Income Taxes* which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN No. 48 provides guidance on the de-recognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. The accounting provisions of FIN No. 48 will be effective for the Company beginning April 1, 2007. The Company is in the process of determining the effect, if any, that the adoption of FIN No. 48 will have on its financial statements.

**Table of Contents****Liquidity and Capital Resources**

During the first quarter of fiscal year 2007, we generated approximately \$5.5 million of cash and cash equivalents from operating activities. Operating cash flows in this quarter included a \$1.3 million non cash adjustment for stock compensation expense recognized under SFAS 123(R). The primary increase in cash from operations was related to the cash components of our net income, partially offset by a decrease in accounts payable of \$2.2 million coupled with increases in accounts receivable and net inventory of \$0.6 million and \$2.7 million, respectively. In the comparable period of fiscal year 2006, we generated approximately \$34.3 million of cash and cash equivalents in our operating activities primarily due to a \$25 million settlement of our Fujitsu litigation coupled with a large decrease in our inventory of \$7.1 million.

Net cash used in investing activities was \$22.9 million during the first quarter of fiscal year 2007. This was primarily the result of the purchase of \$52.1 million of available-for-sale securities offset by the sale of \$29.9 million in available-for-sale securities. Purchases of property and equipment and technology licenses amounted to \$0.6 million during the quarter. During the first quarter of fiscal year 2006, we used approximately \$24.6 million in cash for investing activities, primarily related to the purchase of certain available-for-sale securities of \$65.6 million, partially offset by the sale and maturity of certain available-for-sale securities of \$42.0 million along with purchases of property and equipment and technology licenses totaling \$0.7 million.

We generated \$3.8 million and \$1.1 million in cash from financing activities during the first quarter of fiscal years 2007 and 2006, respectively, due to the issuance of common stock in connection with option exercises and our employee stock purchase plan.

As of June 24, 2006, we have restricted cash of \$5.7 million which primarily secures certain obligations under our lease agreement for the headquarters and engineering facility in Austin, Texas.

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 assure 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 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. There have been no significant changes in our interest or foreign exchange risk since we filed our Amended 2006 Annual Report on Form 10-K/A on April 18, 2007.

**ITEM 4. 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-Q/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 preceding Item 1 of this Form 10-Q/A and in Note 1A, *Restatement of Consolidated Condensed Financial Statements*, of the Notes to the Consolidated Condensed Financial Statements presented in Item 1 of this Form 10-Q/A.

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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.

In connection with the filing of this amended Quarterly Report on Form 10-Q/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 June 24, 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.

**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.



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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

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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.

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**Table of Contents****PART II****ITEM 1. LEGAL PROCEEDINGS****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 supplied us with certain software design tools. Silvaco alleges that our use of Circuit Semantics' 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 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 Amended Annual Report on Form 10-K/A for the fiscal year ended March 25, 2006, as filed with the U.S. Securities and Exchange Commission ( Commission ) on April 18, 2007 and available at [www.sec.gov](http://www.sec.gov). There have been no material changes from the risk factors previously disclosed in our Amended Annual Report on Form 10-K/A for the fiscal year ended March 25, 2006 filed with the Commission on April 18, 2007.

**ITEM 6. EXHIBITS**

(a) Exhibits.

- 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. (2)
- 3.5 Certificate of Elimination dated May 26, 2005. (3)
- 10.19 Employment Agreement by and between Registrant and Gregory S. Thomas dated May 24, 2006. (4)
- 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.

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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.

(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.

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- (2) Incorporated by reference from Registrant's Report on Form 8-K filed with the Commission on September 21, 2005.
- (3) 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.
- (4) Incorporated by reference from Registrant's Report on Form 10-K for the fiscal year ended March 25, 2006, filed with the Commission on May 25, 2006.

**SIGNATURE**

**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.

Date: April 18, 2007

By: /s/ Thurman K. Case

Thurman K. Case  
Chief Financial Officer and Principal  
Accounting  
Officer

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