CIRRUS LOGIC INC

FORM 10-Q
(Quarterly Report)

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Industry	Semiconductors
Sector	Technology
Fiscal Year	03/30

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the quarterly period ended June 28, 1997

Commission file Number 0-17795

CIRRUS LOGIC, INC.

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

CALIFORNIA	77-0024818
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3100 West Warren Avenue, Fremont, CA 94538
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code:
(510) 623-8300

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 [X]

The number of shares of the registrant's common stock, no par value, was 67,012,137 as of June 28, 1997.

Part 1. Financial Information
Item 1. Financial Statements

CIRRUS LOGIC, INC.
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Quarter Ended	
	June 28, 1997	June 29, 1996
Net sales	$201,623	$214,898
Costs and expenses:		
Cost of sales	122,471	132,407
Research and development	44,182	61,218
Selling, general and administrative	29,527	30,568
Total costs and expenses	196,180	224,193
Income (loss) from operations	5,443	(9,295)
Interest and other (expense) income, net	(1,900)	(1,341)
Income (loss) before provision (benefit) for income taxes	3,543	(10,636)
Provision (benefit) for income taxes	1,063	(3,031)
Net income (loss)	$2,480	($7,605)
Net income (loss) per common and common equivalent share	$0.04	($0.12)
Weighted average common and common equivalent shares outstanding	67,849	64,159

See Notes to the Unaudited Consolidated Condensed Financial Statements.

CIRRUS LOGIC, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS
(In thousands)

	June 28, 1997	Mar. 29, 1997
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$100,093	$151,540
Short-term investments	225,357	188,215
Accounts receivable, net	157,940	173,743
Inventories	97,773	127,252
Deferred tax assets	34,410	34,410
Payments for joint venture equipment to be leased	107,364	112,597
Other current assets	8,666	7,245
Total current assets	731,603	795,002
Property and equipment, net	124,490	130,855
Manufacturing agreements, net and investments in joint ventures	150,304	151,675
Deposits and other assets	57,299	59,289
	$1,063,696	$1,136,821
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$206,130	$270,282
Accrued salaries and benefits	23,539	33,792
Obligations under equipment loans and capital leases, current portion	27,784	30,999
Income taxes payable	28,956	31,259
Total current liabilities	286,409	366,332
Obligations under equipment loans and capital leases, non-current	57,617	61,096
Other long-term	5,299	5,196
Convertible subordinated notes	300,000	300,000
Commitments and contingencies	0	0
Shareholders' equity:		
Capital stock	358,956	351,261
Retained earnings	55,415	52,936
Total shareholders' equity	414,371	404,197
	$1,063,696	$1,136,821

See Notes to the Unaudited Consolidated Condensed Financial Statements.

CIRRUS LOGIC, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)
(In thousands)

	Quarter Ended	
	June 28, 1997	Jun. 29, 1996
Cash flows from operations:		
Net income	$2,480	($7,605)
Adjustments to reconcile net (loss) income to net cash flows from operations:		
Depreciation and amortization	18,063	22,826
Net change in operating assets and liabilities	(27,311)	(66,913)
Net cash flows provided by operations	(6,768)	(51,692)
Cash flows from investing activities:		
Purchase of short-term investments	(157,852)	(2,008)
Proceeds from sale of short-term investments	120,710	9,068
Additions to property and equipment	(6,810)	(6,682)
Joint venture manufacturing agreements and investment in joint ventures	0	(2,000)
Increase in deposits and other assets	(1,527)	(3,202)
Net cash flows used by investing activities	(45,479)	(4,824)
Cash flows from financing activities:		
Proceeds from issuance of common stock	6,657	7,777
Borrowings on short-term debt	0	92,000
Borrowings on long-term debt	3,588	0
Payments on long-term debt and capital lease obligations	(9,445)	(7,157)
Payments on short-term debt	0	(80,000)
Increase in other long-term liabilities	0	141
Net cash flows provided by financing activities	800	12,761
Increase in cash and cash equivalents	(51,447)	(43,755)
Cash and cash equivalents - beginning of period	151,540	155,979
Cash and cash equivalents - end of period	$100,093	$112,224

Supplemental disclosure of cash flow information:		
Interest paid	$12,362	$2,634
Income taxes (refunded) paid	$-	($17,394)
Equipment purchased under capitalized leases	$-	$9,286
Tax benefit of stock option exercises	$436	$1,055

See Notes to the Unaudited Consolidated Condensed Financial Statements.

CIRRUS LOGIC, INC.

NOTES TO THE UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

1. Basis of Presentation

The consolidated condensed financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of the Company, the financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial position, operating results and cash flows for those periods presented. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements, and notes thereto for the year ended March 29, 1997, included in the Company's 1997 Annual Report on Form 10-K. The results of operations for the interim periods presented are not necessarily indicative of the results that may be expected for the entire year.

2. Inventories

Inventories are comprised of the following:

	June 28, 1997	March 28, 1997
	(In thousands)	
Work-in-process	$55,905	$ 79,276
Finished goods	41,868	47,976
Total	$ 97,773	$ 127,252

3. Income Taxes

The Company provides for income taxes during interim reporting periods based upon an estimate of the annual effective tax rate. Such estimate reflects an effective tax rate lower than the federal statutory rate primarily because of foreign operating results which are taxed at rates other than the U.S. statutory rate, federal and state research tax credits, and state investment tax credits.

4. Net Income (Loss) Per Common and Common Equivalent Share

Net income (loss) per common and common equivalent share is based on the weighted average common shares outstanding and dilutive common equivalent shares (using the treasury stock or modified treasury stock method, whichever applies). Common equivalent shares include stock options and warrants when appropriate. Dual presentation of primary and fully diluted earnings per share is not shown on the face of the income statement because the differences are insignificant.

5. Commitments

As of June 28, 1997, the Company is contingently liable for MiCRUS and Cirent equipment leases which have remaining payments of approximately $538 million, payable through fiscal 2004.

6. Recently Issued Accounting Pronouncement

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earnings Per Share", which is required to be adopted by December 31, 1997. At that time the Company will be required to change the method currently used to compute earnings per share and to restate all prior periods. Under the new requirements for calculating primary earnings per share, the dilutive effect of stock options will be excluded. The implementation of Statement No. 128 is not expected to have an impact on the calculation of primary or fully diluted earnings per share for the quarters ended June 28, 1997 or June 29, 1996.

7. Subsequent Events

On June 30, 1997, the Company amended its existing bank lines of credit to provide a commitment for letters of credit up to a maximum aggregate of $35,000,000, expiring on June 30, 1998, which is collateralized by cash or securities with interest at the higher of: (a) .50% per annum above the latest federal funds rate (as defined in the Second Amended Credit Agreement); and (b) the rate of interest in effect for such day as publicly announced from time to time by the Bank of America National Trust and Savings Association in San Francisco, California. The Company is currently in compliance with all covenants under the bank line. The Company does not believe the amendment of its line of credit will have an impact on its financial position or on its ability to finance its operations for the foreseeable future.

In July of 1997 , the Company terminated the foundry agreement and foundry capacity agreement it had entered into with United Microelectronics Corporation ("UMC"), a Taiwanese Company, in the fall of 1996. Under the agreements, the Company had become an equity partner in United Silicon Inc., a subsidiary of UMC, and had rights to purchase minimum volume amounts of wafers. Pursuant to the termination, the Company relinquished its equity interest and its rights to purchase the volume amounts, and it recovered the cumulative cost of its investment in the venture.

Item 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations

This information should be read along with the unaudited consolidated condensed financial statements and the notes thereto included in Item 1 of this Quarterly Report and 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 28, 1997, contained in the 1997 Annual Report on Form 10-K (the "1997 Form 10- K"). This Discussion and Analysis contains forward-looking statements. Such statements are subject to certain risks and uncertainties, including those discussed below or in the 1997 Form 10-K that could cause actual results to differ materially from the Company's expectations. Readers are cautioned not to place undue reliance on any forward-looking statements, as they reflect management's analysis only as of the date hereof. The Company undertakes no obligation to publicly release the results of any revision to these forward-looking statements which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

During fiscal 1997, the Company implemented a strategy of focusing on the markets for multimedia (graphics, video, and audio), mass storage, and communications. As part of this strategy, the Company has been divesting non-core business units and eliminating projects that do not fit within its core markets. At the same time, the Company implemented a program to manage costs and streamline operations. These efforts culminated in the fourth quarter of fiscal 1997 with a reorganization into four market-focused product divisions (Personal Computer Products, Communications Products, Mass Storage Products, and Crystal Semiconductor Products), and a decision to outsource its production testing and to consolidate certain corporate functions. In connection with these actions, the Company effected a workforce reduction of approximately 400 people in April 1997, representing approximately 15 percent of its worldwide staff. While these actions contributed to the Company's ability to generate net income in the first quarter of fiscal 1998, there is no assurance that the Company will regain the levels of profitability that it achieved in the past or that losses will not occur in the future.

Results of Operations

The following table discloses the percentages that income statement items are of net sales and the percentage change in the dollar amounts for the same items compared to the corresponding period in the prior fiscal year.

	Percentage of Net Sales Quarter Ended		
	June 28, 1997	June 29, 1996	Percent change
Net sales	100%	100%	- 6%
Gross margin	39%	38%	- 4%
Research and development	22%	28%	- 28%
Selling, general and administrative	14%	14%	- 3%
Income (loss) from operations	3%	-4%	N/A
Income (loss) before income taxes	2%	-5%	N/A
Provision (benefit)for income taxes	1%	-1%	N/A
Net income (loss)	1%	-4%	N/A

Net Sales

Net sales for the first quarter of fiscal 1998 were $201.6 million, a decrease of 6% from the $214.9 million reported for the first quarter of fiscal 1997. Increased sales in the mass storage division were offset by decreased sales in the PC products division, largely related to graphics products, and decreased sales from divested businesses.

Export sales (including sales to U.S.-based customers with manufacturing plants overseas) were 54% and 65% of total sales in the first quarter of fiscal 1998 and 1997, respectively. The decrease in export sales as a percentage of total sales was primarily due to a reduction in sales of PC products in the Pacific Rim (which excludes Japan), primarily due to competitive pricing pressures and demand constraints for certain of the Company's products in the region.

The Company's sales are currently denominated primarily in U.S. dollars. The Company may enter into foreign currency forward exchange and option contracts to hedge certain of its foreign currency exposures.

Sales to one customer comprised approximately 15% of sales in the first quarter of fiscal 1998 and sales to two customers comprised 10% each of total sales in the first quarter of fiscal 1997.

Gross Margin

Gross margin was 39% in the first quarter of fiscal 1998, which was relatively consistent compared to 38% for the first quarter of fiscal 1997.

Research and Development

Research and development expenses for the first quarter of fiscal 1998 were $44.1 million, a decrease of 28% from $61.2 million in the first quarter of fiscal 1997. Research and development expenditures decreased during the final three quarters of fiscal 1997 as the Company focused its product development efforts on its core businesses and these expenditures continued to decrease in the first quarter of fiscal 1998 as a result of the April 1997 headcount reductions which were made in connection with the Company's realignment into four market focused divisions.

Selling, General and Administrative Expenses

Selling, general and administrative expenses in the first quarter of fiscal 1998 were $29.5 million a decrease of 3% from $30.6 million in the first quarter of fiscal 1997, and were relatively consistent at 14% of sales in each of these quarters.

Income Taxes

The Company's effective tax rate was a 30.0% provision in the first quarter of fiscal 1998 compared to a benefit of 28.5% the first quarter of fiscal 1997. The 30.0% estimated annual effective tax rate is less than the U.S. federal statutory rate of 35.0 %, primarily because of foreign operating results which are taxed at rates other than the U.S. statutory rate, federal and state research tax credits, and state investment tax credits. In the first quarter of fiscal 1997 the Company generated a tax benefit as a result of its net loss for the period.

Liquidity and Capital Resources

The Company used approximately $6.8 million of cash and cash equivalents in its operating activities during the first quarter of fiscal 1998 and used approximately $51.7 million during the first quarter of fiscal 1997. The decrease in cash used for operations was primarily due to having net income of $2.5 million in the first quarter of fiscal 1998 compared to a loss of $7.6 million in the same quarter of the prior fiscal year, and the net change in operating assets and liabilities.

The Company used $45.5 million in cash in investing activities during the first quarter of fiscal 1998 compared to $4.8 million during the comparable period of fiscal 1997. The primary reason for the change is that during the first quarter of fiscal 1998 the Company had a significantly higher level of cash and equivalents and short-term investments than in the same quarter of the prior fiscal, primarily related to the $290.6 million of proceeds from the issuance of convertible debt in the third quarter of fiscal 1997. In the first quarter of fiscal 1998, the Company invested a higher proportion of its funds in short-term investments than it did in the immediately prior quarter.

Financing activities provided $0.8 million in cash during the first quarter of fiscal 1998 and $12.8 million during the comparable period of fiscal 1997. In the first quarter of fiscal 1997, net short-term borrowings provided $12.0 million of financing. The Company raised approximately $290.6 million in the third quarter of fiscal 1997 and, as a result, is no longer using short-term borrowings as a source of financing.

On June 30, 1997, the Company amended its existing bank lines of credit to provide a commitment for letters of credit up to a maximum aggregate of $35,000,000, expiring on June 30, 1998, which is collateralized by cash or securities with interest at the higher of: (a) .50% per annum above the latest federal funds rate (as defined in the Second Amended Credit Agreement); and (b) the rate of interest in effect for such day as publicly announced from time to time by the Bank of America National Trust and Savings Association in San Francisco, California. The Company is currently in compliance with all covenants under the bank line. The Company does not believe the amendment of its line of credit will have an impact on its financial position or on its ability to finance its operations for the foreseeable future.

The semiconductor industry is extremely capital intensive. To remain competitive, the Company believes it must continue to invest in advanced wafer manufacturing and in test equipment. Investments will be made in the various external manufacturing arrangements and its own facilities. The Company intends to obtain most of the necessary capital through direct or guaranteed equipment lease financing and the balance through debt and/or equity financing. As of June 28, 1997, the Company is contingently liable as guarantor or co-guarantor for MiCRUS and Cirent equipment leases which have remaining payments of approximately $538 million due through fiscal 2004. In addition, the Company has other commitments related to its joint venture relationships that total approximately $118 million at June 28, 1997.

There can be no assurance that financing will be available or, if available, will be on satisfactory terms. Failure to obtain adequate financing would restrict the Company's ability to expand its manufacturing infrastructure, to make other investments in capital equipment, and to pursue other initiatives.

Future Operating Results

Quarterly Fluctuations

The Company's quarterly revenues and operating results have varied significantly in the past and are likely to vary substantially from quarter to quarter in the future. The Company's operating results are affected by a wide variety of factors, many of which are outside of the Company's control, including but not limited to, economic conditions and overall market demand in the United States and worldwide, the Company's ability to introduce new products and technologies on a timely basis, changes in product mix, fluctuations in manufacturing costs which affect

the Company's gross margins, declines in market demand for the Company's and its customers' products, sales timing, the level of orders which are received and can be shipped in a quarter, the cyclical nature of both the semiconductor industry and the markets addressed by the Company's products, product obsolescence, price erosion, and competitive factors. The Company's operating results in the rest of fiscal 1998 are likely to be affected by these factors as well as others.

The Company must order wafers and build inventory well in advance of product shipments. Because the Company's markets are volatile and subject to rapid technology and price changes, there is a risk that the Company will forecast incorrectly and produce excess or insufficient inventories of particular products. This inventory risk is heightened because many of the Company's customers place orders with short lead times. Such inventory imbalances have occurred in the past and, for example, contributed significantly to the Company's operating losses in fiscal 1997 and 1996. These factors increase not only the inventory risk but also the difficulty of forecasting quarterly operating results. Moreover, as is common in the semiconductor industry, the Company frequently ships more product in the third month of each quarter than in either of the first two months of the quarter, and shipments in the third month are higher at the end of that month. The concentration of sales at the end of the quarter contributes to difficulty in predicting the Company's quarterly revenues and results of operations.

The Company's success is highly dependent upon its ability to develop complex new products, to introduce them to the marketplace ahead of the competition, and to have them selected for design into products of leading system manufacturers. Both revenues and margins may be affected quickly if new product introductions are delayed or if the Company's products are not designed into successive generations of products of the Company's customers. These factors have become increasingly important to the Company's results of operations because the rate of change in the markets served by the Company continues to accelerate.

Issues Relating to Manufacturing and Manufacturing Investment

In the first quarter of fiscal 1998 and in fiscal 1997, manufacturing supply exceeded demand for certain of the Company's products and the Company believes that its manufacturing capacity will exceed demand at least through the third quarter of fiscal 1998. As a consequence, the Company incurs charges related to its MiCRUS joint venture for failing to purchase sufficient wafers and in the fourth quarter of fiscal 1997 the Company recorded an accrual for anticipated under-use of wafer fabrication capacity, which negatively impacted gross margins in that quarter. In the first quarter of fiscal 1998, the Company did not record additional accruals as its utilization of available wafer fabrication capacity was consistent with the expectations in the previous quarter.

Although the Company believes that its efforts to increase its source of wafer supply through joint ventures (MiCRUS with IBM and Cirent Semiconductor with Lucent Technologies) and other arrangements have significant potential benefits to the Company, there are also risks, some of which materialized in the third and fourth quarters of fiscal 1996 and the second and fourth quarters of fiscal 1997. These arrangements reduce the Company's flexibility to reduce the amount of wafers it is committed to purchase and increase the Company's fixed manufacturing costs as a percentage of overall costs of sales. As a result, the operating results of the Company are becoming more sensitive to fluctuations in revenues. In the case of the Company's joint ventures, overcapacity results in underabsorbed fixed cost, which adversely affects gross margins and earnings. During the fourth quarter of fiscal 1997, the Company accrued $22.0 million for anticipated under utilization of wafer fabrication capacity. In the case of the Company's "take or pay" contracts with foundries, the Company must pay contractual penalties if it fails to purchase its minimum commitments.

Moreover, the Company will benefit from the MiCRUS and Cirent Semiconductor joint ventures only if they are able to produce wafers at or below prices generally prevalent in the market. If, however, either of these ventures is not able to produce wafers at competitive prices, the Company's results of operations will be materially adversely affected. The process of beginning production and increasing volume with the joint ventures inevitably involves risks, and there can be no assurance that the manufacturing costs of such ventures will be competitive. During fiscal 1997, excess production capacity in the industry lead to significant price competition between foundries and the Company believes that in some cases this resulted in pricing from certain foundries that was lower than the Company's cost of production from its manufacturing joint ventures. The Company experienced pressures on its selling prices during fiscal 1997, which had a negative impact on its results of operations and it believes that this was partially due to the fact that certain of its competitors were able to obtain favorable pricing from these foundries.

Certain provisions of the MiCRUS and Cirent Semiconductor agreements may cause the termination of the joint venture in the event of a change in control of the Company. Such provisions could have the effect of discouraging, deferring or preventing a change of control of the Company.

In connection with the financing of its operations, the Company has borrowed money and entered into substantial equipment lease obligations and is likely to expand such commitments in the future. Such indebtedness could cause the Company's principal and interest obligations to increase substantially. The degree to which the Company is leveraged could adversely affect the Company's ability to obtain additional financing for working capital, acquisitions or other purposes and could make it more vulnerable to industry downturns and competitive pressures. The Company's ability to meet its debt service and other obligations will be dependent upon the Company's future performance, which will be subject to financial, business and other factors affecting the operations of the Company, many of which are beyond its control. An inability to obtain financing to meet these obligations could cause the Company to default on such obligations.

Although the Company has increased its future wafer supplies from the MiCRUS and Cirent Semiconductor joint ventures, the Company expects to continue to purchase portions of its wafers from, and to be reliant upon, outside merchant wafer suppliers for at least the next two years. The Company also uses other outside vendors to package the wafer die into integrated circuits.

The Company's results of operations could be adversely affected in the future, and has been in the past, if particular suppliers are unable to

provide a sufficient and timely supply of product, whether because of raw material shortages, capacity constraints, unexpected disruptions at the plants, delays in qualifying new suppliers or other reasons, or if the Company is forced to purchase wafers or packaging from higher cost suppliers or to pay expediting charges to obtain additional supply, or if the Company's test facilities are disrupted for an extended period of time. Because of the concentration of sales at the end of each quarter, a disruption in the Company's production or shipping near the end of a quarter could materially reduce the Company's revenues for that quarter. Production may be constrained even though capacity is available at one or more wafer manufacturing facilities because of the difficulty of moving production from one facility to another. Any supply shortage could adversely affect sales and operating profits.

The greater integration of functions and complexity of operations of the Company's products also increases the risk that latent defects or subtle faults could be discovered by customers or end users after volumes of product have been shipped. If such defects were significant, the Company could incur material recall and replacement costs for product warranty.

Dependence on PC Market

Sales of most of the Company's products depend largely on sales of personal computers (PCs). Reduced growth in the PC market could affect the financial health of the Company as well as its customers. Moreover, as a component supplier to PC OEMs and to peripheral device manufacturers, the Company is likely to experience a greater magnitude of fluctuations in demand than the Company's customers themselves experience. In addition, many of the Company's products are used in PCs for the consumer market, and the consumer PC market is more volatile than other segments of the PC market.

Other IC makers, including Intel Corporation, have expressed their interest in integrating through hardware functions, adding through special software functions, or kitting components to provide some multimedia or communications features into or with their microprocessor products. Successful integration of these functions could substantially reduce the Company's opportunities for IC sales in these areas.

A number of PC OEMs buy products directly from the Company and also buy motherboards, add-in boards or modules from suppliers who in turn buy products from the Company. Accordingly, a significant portion of the Company's sales may depend directly or indirectly on the sales to a particular PC OEM. Since the Company cannot track sales by motherboard, add-in board or module manufacturers, the Company may not be fully informed as to the extent or even the fact of its indirect dependence on any particular PC OEM, and, therefore, may be unable to assess the risk of such indirect dependence.

The PC market is intensely price competitive. The PC manufacturers in turn put pressure on the price of all PC components, and this pricing pressure is expected to continue.

Issues Relating to Mass Storage Market

The disk drive market has historically been characterized by a relatively small number of disk drive manufacturers and by periods of rapid growth followed by periods of oversupply and contraction. Growth in the mass storage market is directly affected by growth in the PC market. Furthermore, the price competitive nature of the disk drive industry continues to put pressure on the price of all disk drive components. In addition, consolidation in the disk drive industry has reduced the number of customers for the Company's mass storage products and increased the risk of large fluctuations in demand.

The Company believes that constraints in supply of certain read head components to the disk drive industry limited sales of its mass storage products in the fourth quarter of fiscal 1997. In addition, the Company believes that excess inventories held by its customers limited sales of the Company's mass storage products in the second quarter of fiscal 1997 and limited sales of the Company's optical disk drive products in the third quarter of fiscal 1997. Revenues from mass storage products in the remainder of fiscal 1998 are likely to depend heavily on the success of certain 3.5 inch disk drive products selected for use by various customers, which in turn depends upon obtaining timely customer qualification of the new products and bringing the products into volume production timely and cost effectively.

The Company's revenues from mass storage products are dependent on the successful introduction by its customers of new disk drive products. Recent efforts by certain of the Company's customers to develop their own ICs for mass storage products could in the future reduce demand for the Company's mass storage products, which could have an adverse effect on the Company's revenues and gross margins from such products. In addition, in response to the current market trend towards integrating hard disk controllers with microcontrollers, the Company's revenues and gross margins from its mass storage products will be dependent on the Company's ability to introduce such integrated products in a commercially competitive manner.

Issues Relating to Graphics Products

The PC graphics market today consists primarily of two-dimensional (2D) graphics accelerators and 2D graphics accelerators with video features. Market demand for three-dimensional (3D) graphics acceleration began to grow in the third quarter of fiscal 1997 and is expected to grow stronger in fiscal 1998, primarily in PC products for the consumer marketplace. Several of the Company's competitors design, produce and market 3D accelerators.

The Company continues to experience intense competition in the sale of both 2D and 3D graphics products. Several competitors introduced products and adopted pricing strategies that have increased competition in the desktop graphics market, and new competitors continue to enter

the market. These competitive factors affected the Company's market share, gross margins, and earnings in fiscal 1997 and are likely to affect revenues and gross margins for graphics accelerator products in the future.

During the second quarter of fiscal 1997, the Company introduced and began shipping its first Rambus DRAM-based 3D accelerator for the mainstream PC market. Sales of the Company's 3D accelerator products were not material in the first quarter of fiscal 1998 or in fiscal 1997. The Company is striving to bring additional products with 3D acceleration to market, but there is no assurance that it will succeed in doing so in a timely manner. If these additional products are not brought to market in a timely manner or do not address the market needs or cost or performance requirements, then the Company's graphics market share and sales could be adversely affected. Revenues from the sale of graphics products in fiscal 1998 are also likely to be significantly dependent on the success of the Company's current DRAM- based 2D graphics/video accelerators.

Issues Relating to Audio Products

Most of the Company's revenues in the multimedia audio market derive from the sales of 16-bit audio Codecs and integrated 16-bit Codec plus controller solutions for the consumer PC market. Pricing pressures have forced a transition from multi-chip solutions to products that integrate the Codec, controller and synthesis into a single IC. The Company's revenues from the sale of audio products in the remainder of fiscal 1998 are likely to be significantly affected by the success of its recently introduced fully- integrated, single-chip audio ICs. Moreover, aggressive competitive pricing pressures have adversely affected and may continue to adversely affect the Company's revenues and gross margins from the sale of single-chip audio ICs. In addition, the introduction of new audio products from the Company's competitors, the introduction of mediaprocessors and the introduction of MMX processors with multimedia features by Intel Corporation could adversely affect revenues and gross margins from the sale of the Company's audio products.

Three-dimensional spatial effects audio is expected to become an important feature in fiscal 1998, primarily in products for the consumer marketplace. The Company has begun shipping such products. If the Company's spatial effects audio products do not meet the cost or performance requirements of the market, revenues from the sale of audio products would be adversely affected.

Issues Relating to Communications Market

Most of the Company's revenues from communications products are expected to derive from sales of voice/data/fax modem chip sets. The market for these products is intensely competitive, and competitive pricing pressures have affected and are likely to continue to affect the average selling prices and gross margins from this product line. The success of the Company's products will depend not only on the products themselves but also on the degree and timing of market acceptance of new performance levels developed by U.S. Robotics, which will be supported by the Company's new products, and the development of standards with regard to these new performance levels. Moreover, as a relatively new entrant to this market, the Company may be at a competitive disadvantage to suppliers who have long-term customer relationships, have greater market share or have greater financial resources. In addition, the introduction of new modem products from the Company's competitors, the introduction of mediaprocessors and the introduction of MMX processors with multimedia features by Intel Corporation could adversely affect revenues and gross margins from the sale of the Company's modem products.

Issues Related to Reorganization

During the fourth quarter of fiscal 1997, the Company decided to reorganize into four market focused divisions (Personal Computer Products, Communications Products, Mass Storage Products, and Crystal Semiconductor Products), outsource its production testing, and consolidate certain corporate functions. In connection with these actions, the Company effected a workforce reduction of approximately 400 people, representing approximately 15% of the worldwide staff. Although the Company generated net income in the first quarter of fiscal 1998, there is no assurance that these actions will be successful or have a positive impact on results of operations. Furthermore, should such actions have a negative impact on the Company's ability to design and develop new products, market new or existing products, or produce and/or purchase products at competitive prices, these actions could have an adverse impact on the Company's results of operations.

Intellectual Property Matters

The semiconductor industry is characterized by frequent litigation regarding patent and other intellectual property rights. The Company and certain of its customers from time to time have been notified that they may be infringing certain patents and other intellectual property rights of others. In addition, customers have been named in suits alleging infringement of patents or other intellectual property rights by customer products. Certain components of these products have been purchased from the Company and may be subject to indemnification provisions made by the Company to its customers. Although licenses are generally offered in situations where the Company or its customers are named in suits alleging infringement of patents or other intellectual property rights, there can be no assurance that any licenses or other rights can be obtained on acceptable terms. Because successive generations of the Company's products tend to offer an increasing number of functions, there is a likelihood that more of these claims will occur as the products become more highly integrated. The Company cannot accurately predict the eventual outcome of any suit or other alleged infringement of intellectual property. An unfavorable outcome occurring in any such suit could have an adverse effect on the Company's future operations and/or liquidity.

Foreign Operations and Markets

Because many of the Company's subcontractors and several of the Company's key customers, which customers collectively account for a

significant percentage of the Company's revenues, are located in Japan and other Asian countries, the Company's business is subject to risks associated with many factors beyond its control. International operations and sales may be subject to political and economic risks, including political instability, currency controls, exchange rate fluctuations, and changes in import/export regulations, tariff and freight rates. Although the Company buys hedging instruments to reduce its exposure to currency exchange rate fluctuations, the Company's competitive position can be affected by the exchange rate of the U.S. dollar against other currencies, particularly the Japanese yen.

Competition

The Company's business is intensely competitive and is characterized by new product cycles, price erosion and rapid technological change. Competition typically occurs at the design stage, where the customer evaluates alternative design approaches that require integrated circuits. Because of shortened product life cycles and even shorter design-in cycles, the Company's competitors have increasingly frequent opportunities to achieve design wins in next generation systems. In the event that competitors succeed in supplanting the Company's products, the Company's market share may not be sustainable and net sales, gross margin, and earnings would be adversely affected. Competitors include major domestic and international companies, many of which have substantially greater financial and other resources than the Company with which to pursue engineering, manufacturing, marketing and distribution of their products. Emerging companies are also increasing their participation in the market, as well as customers who develop their own integrated circuit products. Competitors include manufacturers of standard semiconductors, application specific integrated circuits and fully customized integrated circuits, including both chip and board-level products. The ability of the Company to compete successfully in the rapidly evolving area of high-performance integrated circuit technology depends significantly on factors both within and outside of its control, including, but not limited to, success in designing, manufacturing and marketing new products, wafer supply, protection of Company products by effective utilization of intellectual property laws, product quality, reliability, ease of use, price, diversity of product line, efficiency of production, the pace at which customers incorporate the Company's integrated circuits into their products, success of the customers' products and general economic conditions. Also the Company's future success depends, in part, upon the continued service of its key engineering, marketing, sales, manufacturing, support and executive personnel, and on its ability to continue to attract, retain and motivate qualified personnel. The competition for such employees is intense, and the loss of the services of one or more of these key personnel could adversely affect the Company. Because of this and other factors, past results may not be a useful predictor of future results.

Part II. Other Information

Item 1. Legal Proceedings

On December 12, 1996, the Company signed a Memorandum of Settlement with plaintiffs' counsel in the federal class action and derivative lawsuits. The agreement settled all pending securities claims against the Company for an aggregate sum of $31.3 million, exclusive of interest, $2.3 million of which would be contributed by the Company with the remainder being contributed by the Company's insurers. The Company recorded the $2.3 million as other expense in the quarter ended December 28,1996.

The settlement includes an amendment of the federal class action filed in 1995 to include claims pending in state court with the intent that the settlement would have the effect of extinguishing the state court claims.

The Court approved the settlement after hearings on June 13 and June 19,1997, overruling objections to the settlement, including those asserted by the attorneys who filed the state action. The judgment approving the settlement was signed on June 23, 1997. The order approving the settlement shall become final on July 23, 1997. The attorneys who filed the state action have filed an appeal of such order. The Company intends to defend itself vigorously in such appeals. The Company believes that the likelihood is remote that the ultimate resolution of these matters will have a material adverse effect on its financial position, results of operations or cash flows. However, there can be no certainty or assurance as to the outcome of any litigation process.

Part II. Other Information

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

On July 31, 1997, the Company held its Annual Meeting of Shareholders. The matters voted upon at the meeting and the results of those votes were as follows:

1. Election of Directors:

	Votes For	Votes Withheld
Michael L. Hackworth	57,525,372	1,923,267
Suhas S. Patil	57,545,897	1,902,742
C. Gordon Bell	57,581,951	1,866,688
D. James Guzy	57,603,393	1,845,246
Walden C. Rhines	57,602,296	1,846,343
Robert H. Smith	57,535,068	1,913,571

2. Approve amendment to the 1989 Employee Stock Purchase Plan:

For	Against	Abstain	No Vote
55,745,460	3,297,380	405,799	--

3. Approve amendment to the 1996 Stock Plan:

For	Against	Abstain	No Vote
51,923,608	7,065,924	459,107	--

4. Ratify the appointment of Ernst & Young LLP as Independent Auditors:

For	Against	Abstain	No Vote
58,635,981	533,480	279,268	--

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

Exhibit 11 Statement re: Computation of Earnings per share

Exhibit 27 Financial Data Schedule

b. Reports on Form 8-K
None.

CIRRUS LOGIC, INC.

SIGNATURES

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

CIRRUS LOGIC, INC.
(Registrant)

August 12, 1997	*/s/ Ronald K. Shelton*
Date	*Ronald K. Shelton*
	Vice President, Finance, Chief Financial Officer,
	Principal Accounting Officer, and Treasurer

[ARTICLE] 5
[MULTIPLIER] 1,000

Part II. Other information, Item 6a.

Exhibit 11

CIRRUS LOGIC, INC.
STATEMENT RE: COMPUTATION OF EARNINGS PER SHARE
(In thousands, except per share amounts)

	Quarter Ended	
	June 28, 1997	June 29, 1996
Primary:		
Weighted average shares outstanding	66,416	64,159
Dilutive common stock equivalents:		
Common stock options, using treasury stock or modified treasury stock method	1,433	N/A
Common stock warrants, using treasury stock or modified treasury stock method	-	-
Common and common equivalent shares used in the calculation of net income (loss) per share	67,849	64,159
Net income (loss)	2,480	(7,605)
Net income (loss) per share	$0.04	($0.12)
Fully diluted:		
Weighted average shares outstanding	66,416	64,159
Dilutive common stock equivalents:		
Common stock options, using treasury stock or modified treasury stock method	1,440	N/A
Convertible subordinated debt, using the "if converted" method	-	-
Common stock warrants, using treasury stock or modified treasury stock method	-	-
Common and common equivalent shares used in the calculation of net income (loss) per share	67,856	64,159
Net income (loss)	$2,480	($7,605)
Net income (loss) per share	$0.04	($0.12)

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE ACCOMPANYING FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

FISCAL YEAR END	Mar 28 1998
PERIOD START	Mar 30 1997
PERIOD END	Jun 28 1997
PERIOD TYPE	3 MOS
CASH	100,093
SECURITIES	225,357
RECEIVABLES	157,940
ALLOWANCES	0
INVENTORY	97,773
CURRENT ASSETS	731,603
PP&E	124,490
DEPRECIATION	0
TOTAL ASSETS	1,063,696
CURRENT LIABILITIES	286,409
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	358,956
OTHER SE	55,415
TOTAL LIABILITY AND EQUITY	1,063,696
SALES	201,623
TOTAL REVENUES	201,623
CGS	122,471
TOTAL COSTS	122,471
OTHER EXPENSES	73,709
LOSS PROVISION	0
INTEREST EXPENSE	0
INCOME PRETAX	3,543
INCOME TAX	1,063
INCOME CONTINUING	2,480
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	2,480
EPS PRIMARY	$0.04
EPS DILUTED	$0.04

End of Filing