CIRRUS LOGIC INC

FORM 10-Q
(Quarterly Report)

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Industry	Semiconductors
Sector	Technology
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FORM 10-Q

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 30, 2000

[ ] 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.)
4210 S. Industrial Drive, Austin, TX (Address of principal executive offices)	78744 (Zip Code)

Registrant's telephone number, including area code: (512) 445-7222

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 [X] NO [ ]

The number of shares of the registrant's common stock, $0.001 par value, outstanding was 79,022,422 as of December 30, 2000.

CIRRUS LOGIC, INC.

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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		Three Quarters Ended	
	Dec. 30 2000	Dec. 25 1999	Dec. 30 2000	Dec. 25 1999
Net sales	$ 207,998	$ 150,759	$ 578,948	$ 404,154
Costs and expenses:				
Cost of sales	124,760	90,410	343,172	235,774
Research and development	33,905	31,440	99,494	90,895
Selling, general and administrative	27,155	23,791	82,722	69,940
Restructuring costs, gain on sale of assets and other, net	--	--	(14,362)	127,211
Abandonment of assets charge	--	11,174	--	11,174
Acquired in-process research and development	--	--	--	8,013
Total costs and expenses	185,820	156,815	511,026	543,007
Income (loss) from operations	22,178	(6,056)	67,922	(138,853)
Realized gain on sale of marketable equity securities	3,020	34,293	84,564	34,293
Interest expense	(1,573)	(5,333)	(11,672)	(18,555)
Interest income	4,836	1,458	13,949	6,292
Other income (expense), net	(1,833)	3,561	(1,152)	7,646
Income (loss) before provision for income taxes	26,628	27,923	153,611	(109,177)
Provision for income taxes	2,572	--	15,207	--
Minority interest in (income) loss	(179)	--	45	--
Income (loss) before extraordinary gain and accounting change	23,877	27,923	138,449	(109,177)
Extraordinary gain, net of income tax	--	--	2,482	--
Cumulative effect of change in accounting principle	--	--	(1,707)	--
Net income (loss)	$ 23,877	$ 27,923	$ 139,224	$ (109,177)
Basic income (loss) per share:				
Before extraordinary gain and accounting change	$ 0.32	$ 0.45	$ 2.00	$ (1.78)
Extraordinary gain, net of income tax	--	--	0.04	--
Cumulative effect of change in accounting principle	--	--	(0.02)	--
	$ 0.32	$ 0.45	$ 2.01	$ (1.78)
Diluted income (loss) per share:				
Before extraordinary gain and accounting change	$ 0.30	$ 0.40	$ 1.81	$ (1.78)
Extraordinary gain, net of income tax	--	--	0.03	--
Cumulative effect of change in accounting principle	--	--	(0.02)	--
	$ 0.30	$ 0.40	$ 1.82	$ (1.78)
Weighted average common shares outstanding:				
Basic	75,127	62,134	69,142	61,219
Diluted	80,388	80,911	82,516	61,219

See Notes to the Unaudited Consolidated Condensed Financial Statements

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

(Unaudited)

	December 30, 2000	March 25, 2000
Assets		
Current assets		
Cash and cash equivalents	$ 254,070	$ 144,034
Restricted cash	11,008	57,173
Marketable equity securities	15,506	48,077
Accounts receivable, net	122,225	94,672
Inventories, net	113,501	53,288
Other current assets	24,585	23,421
	540,895	420,665
Property and equipment, net	34,171	34,730
Deposits and other assets	34,349	49,437
	$ 609,415	$ 504,832
Liabilities and Shareholders' Equity (Net Capital Deficiency)		
Current liabilities		
Accounts payable and accrued liabilities	$ 121,775	$ 130,567
Current maturities of long-term debt and capital lease obligations	3,825	12,829
Income taxes payable	56,253	40,193
	181,853	183,589
Long term obligations and convertible subordinated notes	5,287	304,945
Commitments and contingencies		
Stock issued under restructuring agreement	--	32,000
Minority interest	1,955	--
Shareholders' Equity (Net Capital Deficiency)		
Capital stock	698,050	368,015
Accumulated deficit	(291,777)	(431,001)
Accumulated other comprehensive income	14,047	47,284
	420,320	(15,702)
	$ 609,415	$ 504,832

See Notes to the Unaudited Consolidated Condensed Financial Statements

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

(Unaudited)

	Three Quarters Ended	
	Dec. 30, 2000	Dec. 25, 1999
Cash flows from operating activities:		
Net income (loss)	$ 139,224	$ (109,177)
Adjustments to reconcile net income (loss) to net cash flows from operations:		
Depreciation and amortization	22,705	23,842
Other non-cash charges	1,544	40,013
Write off of property and equipment and other assets	--	11,861
Extraordinary gain, net of income tax	(2,482)	--
Gain on sale of short-term investments	(84,564)	(34,293)
Net change in operating assets and liabilities	(68,199)	(137,130)
Net cash provided by (used in) operations	8,228	(204,884)
Cash flows from investing activities:		
Proceeds from sale of short-term investments	--	74,616
Proceeds from sale of marketable equity securities	86,564	34,533
Proceeds from restructuring of joint venture	--	14,000
Increase in property and equipment	(15,673)	(5,730)
Investments in technology	(4,066)	--
Increase in cash from AudioLogic, Inc. acquisition	--	1,010
Increase in deposits and other assets	(275)	(16,685)
Decrease in restricted cash	46,164	27,899
Net cash provided by investing activities	112,714	129,643
Cash flows from financing activities:		
Repurchase of convertible subordinated notes	(24,941)	--
Proceeds from issuance of common stock	20,747	8,383
Payments on long-term debt and capital lease obligations	(11,712)	(20,979)
Cash contributions from minority partners	5,000	--
Net cash used in financing activities	(10,906)	(12,596)
Net increase (decrease) in cash and cash equivalents	110,036	(87,837)
Cash and cash equivalents at beginning of period	144,034	144,457
Cash and cash equivalents at end of period	$ 254,070	$ 56,620

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 Cirrus Logic, Inc. ("we"',"our", "us") 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 our opinion, 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 25, 2000, included in our 2000 Annual Report on Form 10-K. The results of operations for the interim period presented are not necessarily indicative of the results that may be expected for the entire year.

Certain reclassifications have been made to the 2000 financial statements to conform to the 2001 presentation. Such reclassifications had no effect on the results of operations or net capital deficiency.

2. Accounting Changes and Effect of Recently Issued Accounting Standards

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements". We recorded a cumulative effect of a change in accounting principle in the first quarter of fiscal 2001 to reflect our adoption of new revenue recognition policies as a result of this guidance. Effective with the first quarter of fiscal 2001, we have recognized revenue on international shipments based on customer receipt of inventory rather than on the date of shipment, which was our historical method. Results for the first three fiscal quarters of fiscal 2001 include revenue of $5.4 million, cost of sales of $3.5 million and a cumulative effect of change in accounting principle of $1.7 million. Had we adopted the principle in the first quarter of fiscal 2000, results for the three quarters ended December 25, 1999 would have included revenue of $2.1 million and cost of sales of $1.0 million and a cumulative effect of change in accounting principle of $1.1 million.

During the first quarter of fiscal 2001, we also changed our estimate of the amount of revenue which is deferred on distributor transactions for products which are released for sale. Results for the three fiscal quarters ended December 25, 2000 include revenue of $5.4 million, cost of sales of $2.0 million and income of $3.4 million. The after tax effect of this estimate change increased basic and diluted earnings per share by $0.06 and $0.04 for the three quarters ended December 30, 2000.

On March 31, 2000, the Financial Accounting Standards Board issued Interpretation No. 44, which is an interpretation of APB Opinion No. 25 governing the accounting principles applicable to equity incentive plans. The interpretation did not have a material impact on our results of operations or financial condition.

3. Net inventories

Net inventories are comprised of the following (in thousands):

	December 30, 2000	March 25, 2000
Work-in process	$ 78,164	$ 44,539
Finished goods	35,337	8,749
	$ 113,501	$ 53,288

Prior to the third quarter of fiscal 2001, we recognized inventory being manufactured by wafer fabrication suppliers, but not yet received, as a liability prior to our acceptance of the inventory. This liability was recognized because of our joint venture relationships and other contractual obligations with certain suppliers. The agreements with those suppliers have now expired and therefore the inventory and liability are no longer included in the balance sheet.

4. Income Taxes

We have accrued an income tax provision of $2.6 million and $15.2 million for the fiscal quarter and the three fiscal quarters ended December 25, 2000, respectively. Our effective income tax rate was approximately 10% for the quarter and three quarters. Excluding the tax benefit of net operating loss carryforwards our effective income tax rate was approximately 30%.

Statement of Financial Accounting Standards 109 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 its net deferred tax assets due to uncertainties regarding their realization. The realizability of the deferred tax assets will be evaluated on a quarterly basis.

5. Restructuring Costs, Gain on Sale of Assets and Other

During the first three quarters of fiscal 2001, we recorded restructuring and other gains of $14.4 million. Included in this amount is $12.0 million received during the first quarter of fiscal 2001 from Intel Corporation ("Intel") on behalf of Basis Communications Corporation ("Basis") for the payment of two outstanding notes receivable which had previously been written off, and $1.8 million primarily related to the final resolution of the MiCRUS restructuring agreement.

6. Acquisition of AudioLogic, Inc.

On July 27, 1999 we completed our acquisition of AudioLogic, Inc. ("AudioLogic"), a Colorado-based company specializing in low power mixed-signal integrated circuit design, through a stock-for-stock exchange. We guaranteed that the contractual value of the issued shares and unexercised options would be at least $25 million at the one-year anniversary of the closing, July 27, 2000. At that date, the contractual value of the shares was $23.7 million. As a result, we issued an additional 66,200 shares of common stock.

In addition, due to the terms of the acquisition agreement, during September of 2000, we paid additional compensation of $2.5 million to certain employees of AudioLogic. This compensation is included in research and development expenses and selling, general and administrative expenses.

7. Realized Gain on Sale of Marketable Equity Securities

During the third quarter of fiscal 2001, we recognized a gain on sale of marketable equity securities of $3.0 million related to our sale of call options on Openwave Systems, Inc. (formerly known as Phone.com) common stock. Additionally, during the first three quarters of fiscal 2001, we recognized gains on sale of marketable equity securities of $84.6 million. These gains were primarily related to the sale of our holdings of approximately 1 million shares of Series A preferred stock and 0.5 million shares of common stock in Basis to Intel for $91.8 million. The sale was part of a tender offer whereby Intel purchased the outstanding preferred and common stock of Basis for $61.18 per share. Intel withheld from the total consideration $11.2 million pursuant to the indemnification provisions of the merger agreement between Intel and Basis.

8. Interest income

In addition to $12.5 million of interest earned during the first three quarters of fiscal 2001, we also recorded interest income of $1.4 million for interest received on the two outstanding notes receivable from Basis which had previously been written off.

9. Extraordinary Gain, net of income tax

During the first quarter of fiscal 2001, we repurchased $28.1 million par value of our 6% convertible notes on the open market and recognized an extraordinary gain in the first quarter of fiscal 2001 of approximately $2.5 million (after income tax effect of $0.3 million) as a result of these repurchases.

10. Long-term obligations and convertible subordinated notes

On September 25, 2000 we entered into an agreement whereby 990,967 shares of common stock were issued and $0.1 million was paid to the holders of $24 million aggregate principal amount of our 6% Convertible Subordinated Notes, due December 15, 2003 as an inducement to conversion of those notes. On September 28, 2000, we announced that we had called for an October 19, 2000 redemption of $135.0 million aggregate principal amount of our 6% Convertible Subordinated Notes, due December 15, 2003. In addition, on October 18, 2000, we announced that we had called for a November 7, 2000 redemption of $111.9 million aggregate principal amount of our 6% Convertible Subordinated Notes, due December 15, 2003. The combination of the two calls, the individual transaction and voluntary conversions resulted in the conversion of $272.6 million in long-term debt and accrued interest to stockholders' equity.

11. Net Income Per Share

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

BASIC EARNINGS PER SHARE

	Quarter Ended		Three Quarters Ended	
	Dec. 30, 2000	Dec. 25, 1999	Dec. 30, 2000	Dec. 25, 1999
Income (loss) before extraordinary gain and accounting change	$ 23,877	$ 27,923	$ 138,449	$ (109,177)
Extraordinary gain, net of income tax	--	--	2,482	--
Cumulative effect of change in accounting principle	--	--	(1,707)	--
Net income (loss)	$ 23,877	$ 27,923	$ 139,224	$ (109,177)
Weighted average common stock outstanding	75,127	62,134	69,142	61,219
Basic net income (loss) per share:				
Before extraordinary gain and accounting change	$ 0.32	$ 0.45	$ 2.00	$ (1.78)
Extraordinary gain, net of income tax	--	--	0.04	--
Cumulative effect of change in accounting principle	--	--	(0.02)	--
Basic net income (loss) per share	$ 0.32	$ 0.45	$ 2.01	$ (1.78)

DILUTED EARNINGS PER SHARE

	Quarter Ended		Three Quarters Ended	
	Dec. 30, 2000	Dec. 25, 1999	Dec. 30, 2000	Dec. 25, 1999
Income (loss) before extraordinary gain and accounting change	$ 23,877	$ 27,923	$ 138,449	$ (109,177)
Effect of convertible subordinated note conversion	--	4,500	11,018	--
Income (loss) including assumed conversions before extraordinary gain and accounting change	23,877	32,423	149,467	(109,177)
Extraordinary gain, net of income tax	--	--	2,482	--
Cumulative effect of change in accounting principle	--	--	(1,707)	--
Net income (loss)	$ 23,877	$ 32,423	$ 150,242	$ (109,177)
Weighted average common stock outstanding	75,127	62,134	69,142	61,219
Assumed conversion of convertible subordinated notes	--	12,386	8,492	--
Contingent shares	--	3,658	--	--
Dilutive effect of stock options outstanding	5,261	2,733	4,882	--
Weighted average diluted shares of common stock outstanding	80,388	80,911	82,516	61,219
Diluted income (loss) per share:				
Before extraordinary gain and accounting change	$ 0.30	$ 0.40	$ 1.81	$ (1.78)
Extraordinary gain, net of income tax	--	--	0.03	--
Cumulative effect of change in accounting principle	--	--	(0.02)	--
Diluted net income (loss) per share	$ 0.30	$ 0.40	$ 1.82	$ (1.78)

Incremental common shares attributable to the exercise of outstanding options of 1,266,700 shares, for the nine months ended December 25, 1999 were excluded from the computation of diluted net loss per share because the effect would be antidilutive.

12. MiCRUS

The terms of the MiCRUS restructuring agreement, entered into during the first quarter of fiscal 2000, required us to pay $135 million in cash to IBM and issue into an escrow account shares of our common stock with a fair value (based on the average closing price of our common stock for the 20 days prior to closing) of $32 million. Under the escrow arrangement, the escrow period ended on April 3, 2000. On that date, 2.4 million shares were released to IBM and the remaining shares were returned to us due to contractual limitations on the value to be realized by IBM. During the six-month period following April 3, 2000, IBM could sell on the open market our stock that it received. If, at the end of the six-month period on September 30, 2000, IBM had sold at least 15% of our stock, it could require us to purchase the remaining shares for cash such that the total received by IBM, including the amounts IBM received in open market sales, was $32 million. IBM could keep all proceeds from the sale of the stock in excess of $32 million up to a maximum of $48 million. Amounts received by IBM in excess of $48 million had to be returned to us.

As of September 23, 2000, IBM had sold all of the shares of our common stock issued to it under the MiCRUS restructuring agreement. The proceeds from these sales were approximately $48 million. As a result, at September 23, 2000, we have reclassified $32 million of temporary equity to permanent equity, since our obligation under the restructuring agreement had ceased.

13. Comprehensive Income

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

	Quarter Ended		Three Quarters Ended	
	Dec. 30, 2000	Dec. 25, 1999	Dec. 30, 2000	Dec. 25, 1999
Net income (loss)	$ 23,877	$ 27,923	$ 139,224	$ (109,177)
Change in unrealized gain on marketable equity securities	(18,369)	(9,538)	(33,293)	71,652
Change in unrealized loss on foreign currency translation adjustments	(115)	132	56	(1,224)
	$ 5,393	$ 18,517	$ 105,987	$ (38,749)

14. Segment information

Information on reportable segments is as follows (in thousands):

	Quarter Ended		Three Quarters Ended	
	Dec. 30, 2000	Dec. 25, 1999	Dec. 30, 2000	Dec. 25, 1999
Revenues:				
Analog	$ 86,564	$ 82,651	$ 256,760	$ 231,082
Internet	24,375	10,533	73,495	28,158
Magnetic Storage	89,662	35,796	206,491	92,261
End of Life	7,740	21,624	31,473	51,922
Corporate and all other	(343)	155	10,729	731
	$ 207,998	$ 150,759	$ 578,948	$ 404,154
Operating profit (losses):				
Analog	$ 23,882	$ 15,519	$ 78,855	$ 41,776
Internet	5,660	(3,071)	14,830	(7,566)
Magnetic Storage	18,435	2,616	33,008	10,495
End of Life	306	4,866	4,153	14,321
Corporate and all other	(26,105)	(25,986)	(62,924)	(197,879)
	$ 22,178	$ (6,056)	$ 67,922	$ (138,853)

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 25, 2000, contained in the 2000 Annual Report on Form 10-K (the "2000 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 2000 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.

RESULTS OF OPERATIONS

The following table discloses the percentages that income statement items are of net sales.

	Percentage of Net Sales			
	Quarter Ended		Three Quarters Ended	
	Dec. 30, 2000	Dec. 25, 1999	Dec. 30, 2000	Dec. 25, 1999
Net sales	100%	100%	100%	100%
Gross margin	40%	40%	41%	42%
Research and development	16%	21%	17%	22%
Selling, general and administrative	13%	16%	14%	17%
Restructuring costs, gain on sale of assets and other, net	0%	0%	(2)%	31%
Abandonment of asset charge	0%	7%	0%	3%
Acquired in-process research and development	0%	0%	0%	2%
Income (loss) from operations	11%	(4)%	12%	(34)%
Realized gain on sale of marketable equity securities	1%	23%	15%	8%
Interest expense	(1)%	(4)%	(2)%	(5)%
Interest income	2%	1%	2%	2%
Other income	(1)%	2%	0%	2%
Income (loss) before income taxes	13%	19%	27%	(27)%
Provision for income taxes	1%	0%	3%	0%
Income (loss) before extraordinary gain and accounting change	11%	19%	24%	(27)%
Extraordinary gain, net of tax	0%	0%	0%	0%
Cumulative effect of change in accounting principle	0%	0%	0%	0%
Net income (loss)	11%	19%	24%	(27)%

NET SALES

Net sales for the third quarter of fiscal 2001 increased by $57.2 million, or 38.0%, to $208.0 million from $150.8 million for the third quarter of fiscal 2000. Revenues from non-core businesses in the third quarter of fiscal 2001 were $7.4 million, compared to $21.8 million in the third quarter of fiscal 2000. Also included in revenue for the third quarter of fiscal 2001 is $3.5 million of royalty revenue. Excluding revenues from non-core businesses, revenues from core businesses consisting of analog, Internet and magnetic storage increased approximately $71.6 million. Magnetic storage increased $53.9 million, Internet increased $13.8 million and Analog increased $3.9 million.

Net sales for the first three quarters of fiscal 2001 increased by $174.8 million, or 43.2%, to $578.9 million from $404.2 million for the first three quarters of fiscal 2000. Included in revenues in the first three quarters of fiscal 2001 are $5.2 million resulting from an accounting principle change pertaining to the time at which we recognize revenue on international shipments, $5.4 million resulting from a change in accounting estimate pertaining to our method of estimating the amount of revenue which is deferred on distributor transactions for products which are released for sale and $8.5 million of royalty revenue. In addition, revenues from non-core businesses were $31.5 million in the first three quarters of fiscal 2001 compared to $52.6 million in the first three quarters of fiscal 2000. Excluding revenues from non-core businesses and one time accounting changes, net sales from core businesses, consisting of analog, Internet and magnetic storage increased approximately $185.2 million due to increases of $25.7 million, $45.3 million and $114.2 million in the analog, Internet and magnetic storage segments, respectively.

Export sales (including sales to U.S.-based customers with manufacturing plants overseas) were 85% and 75% of total sales in the third quarter of fiscal 2001 and fiscal 2000, respectively, and were 80% and 74% of total sales in the first three quarters of fiscal 2001 and fiscal 2000, respectively.

Our sales are currently denominated primarily in U.S. dollars. We currently enter into foreign currency forward exchange contracts to hedge certain of our foreign currency exposures.

Sales to two customers comprised approximately 24% and 13% of total sales in the third fiscal quarter ended December 30, 2000, and 21% and 11% of total sales in the three fiscal quarters ended December 30, 2000. Sales to these customers were approximately 9% and 10% of total sales in the third fiscal quarter ended December 25, 1999, and 6% and 13% in the three fiscal quarters ended December 25, 1999.

GROSS MARGIN

Gross margin was 40% in the third quarters of fiscal 2001 and 2000. Gross margin was 41% in the first three quarters of fiscal 2001, compared to 42% for the first three quarters of fiscal 2000. Gross margin has decreased during fiscal 2001 primarily due to lower margins on sales of magnetic storage products.

RESEARCH AND DEVELOPMENT

Research and development expenses for the third quarter of fiscal 2001 increased by $2.5 million, or 7.8%, to $33.9 million from $31.4 million in the third quarter of fiscal 2000. Research and development expenses for the first three quarters of fiscal 2001 increased by $8.6 million, or 9.5%, to $99.5 million from $90.9 million in the first three quarters of fiscal 2000. Although these expenses have increased in total dollars, as a percentage of sales the amounts have decreased to 17% from 22% for the first three quarters of fiscal 2001 and 2000, respectively.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses in the third quarter of fiscal 2001 increased $3.4 million, or 14%, to $27.5 million from $23.8 million in the third quarter of fiscal 2000. Selling, general and administrative expenses in the first three quarters of fiscal 2001 increased $12.8 million, or 18%, to $82.7 million from $69.9 million in the first three quarters of fiscal 2000. Although these expenses have increased in total dollars, as a percentage of sales the amounts have decreased to 14% from 17% for the first three quarters of fiscal 2001 and 2000, respectively.

RESTRUCTURING COSTS, GAIN ON SALE OF ASSETS AND OTHER, NET

During the first three quarters of fiscal 2001, we recorded restructuring and other gains of $14.4 million. Included in this amount is $12.0 million received from Intel Corporation ("Intel") on behalf of Basis Communications Corporation ("Basis") for the payment of two outstanding notes receivable which had previously been written off, and $1.8 million primarily related to the final resolution of the MiCRUS restructuring agreement.

During the third quarter of fiscal 2000, we made a strategic decision to abandon the development efforts previously undertaken on the manufacturing component of our enterprise resource planning software. In connection with this decision, we recorded an asset abandonment charge of approximately $10.2 million.

During the first quarter of fiscal 2000, we recorded restructuring and other charges of $128.2 million relating to the termination of our interests in two manufacturing joint ventures, MiCRUS and Cirent, $1 million of which is included is cost of sales. The restructuring charge includes $135 million in direct payments, $32 million worth of our contributed common stock, $4.8 million fair value of the related embedded stock derivative, $9.3 million of lease buyout costs and $16.4 million of equipment write-offs. These charges were offset by the reversal of approximately $71.9 million of previously accrued wafer purchase commitment charges due to the renegotiated terms of our purchase commitments with our former partners.

ACQUIRED IN-PROCESS RESEARCH & DEVELOPMENT EXPENSES

During the second quarter of fiscal 2000, we recorded $8.0 million, or 6% of net sales, of acquired research and development expenses resulting from Cirrus' acquisition of AudioLogic, Inc. (See Note 6 to the Condensed Consolidated Financial Statements). These amounts were expensed on the acquisition date because the acquired technology had not yet reached technological feasibility and had no future alternative uses. There can be no assurance that acquisitions of businesses, products or technologies by us in the future will not result in substantial charges for acquired in-process research and development that may cause fluctuations in our quarterly or annual operating results.

REALIZED GAIN ON SALE OF MARKETABLE EQUITY SECURITIES

During the third quarter of fiscal 2001, we recognized a gain on sale of marketable equity securities of $3.0 million related to our sale of call options on Openwave Systems, Inc.(formerly known as Phone.com) common stock. Additionally, during first three quarters of fiscal 2001 we recognized gains on sale of marketable equity securities of $84.6 million. These gains were primarily related to the sale of our holdings of approximately 1 million shares of Series A preferred stock and 0.5 million shares of common stock in Basis to Intel for $91.8 million. The sale was part of a tender offer whereby Intel purchased the outstanding preferred & common stock of Basis for $61.18 per share. Intel withheld from the total consideration $11.2 million pursuant to the indemnification provisions of the merger agreement between Intel and Basis.

INTEREST EXPENSE

Interest expense was $1.6 million for the third quarter of fiscal 2001 and $5.3 million for the third quarter of fiscal 2000. The decrease is primarily due to the repurchase and conversion of $300.0 million of our 6% convertible subordinated notes.

Interest expense was $11.7 million for the first three quarters of fiscal 2001 and $18.6 million for the first three quarters of fiscal 2000. The decrease was primarily due to the repurchase and conversion of $300.0 million of our 6% convertible subordinated notes.

INTEREST INCOME

Interest income was $4.8 million for the second quarter of fiscal 2001 and $1.5 million for the second quarter of fiscal 2000. The increase is primarily due to the interest earned on the increased cash and cash equivalents balance.

Interest income was $13.9 million for the first three quarters of fiscal 2001 and $6.3 million for the first three quarters of fiscal 2000. The increase is primarily due to interest earned on the increased cash and cash equivalents balance and a $1.4 million interest payment received on the two outstanding notes receivable which had previously been written off.

INCOME TAXES

We have accrued an income tax provision of $2.6 million and $15.2 million for the fiscal quarter and the three fiscal quarters ended December 30, 2000, respectively. Our effective income tax rate was approximately 10% for the quarter and three quarters. Excluding the tax benefit of net operating loss carryforwards our effective income tax rate was approximately 30%.

We did not provide for any income taxes in the first three quarters of fiscal 2000 due to the losses in those quarters.

EXTRAORDINARY GAIN

During May 2000, we repurchased $28.1 million par value of our 6% convertible subordinated notes on the open market and recognized an extraordinary gain in the first quarter of fiscal 2001 of approximately $2.5 million (after income tax effect of $0.3 million) as a result of these repurchases.

CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements". We recorded a cumulative effect of a change in accounting principle in the first quarter of fiscal 2001 to reflect our adoption of new revenue recognition policies as a result of this guidance. Effective with the first quarter of fiscal 2001, we have recognized revenue on international shipments based on passage of title rather than on the date of shipment, which was our historical method.

On March 31, 2000, the Financial Accounting Standards Board issued Interpretation No. 44, which is an interpretation of APB Opinion No. 25 governing the accounting principles applicable to equity incentive plans. The interpretation did not have a material impact on our results of operations or financial condition.

LIQUIDITY AND CAPITAL RESOURCES

We generated $8.2 million of cash from operating activities during the first three quarters of fiscal 2001 and used $204.9 million of cash and cash equivalents in our operating activities during the first three quarters of fiscal 2000. The cash provided by operations in the first three quarters of fiscal 2001 was primarily due to net income and the add-back of depreciation and amortization which are non cash expenses, offset by increases in operating assets and gains on sale of marketable equity securities. The cash used by operations in the first three quarters of fiscal 2000 was primarily due to payments required for the termination of the Company's joint venture operations with IBM and Lucent.

We generated $112.7 million in cash from investing activities during the first three quarters of fiscal 2001 compared to cash provided by investing activities of $129.6 million during the comparable period of fiscal 2000. The cash provided by investing activities for fiscal 2001 was primarily related to proceeds from sales of short-term investments and decreases in the amount of restricted cash. These increases were offset mainly by capital expenditures and investments in technology. For the comparable period of fiscal 2000, cash provided by investing activities was primarily related to proceeds from sales of short-term investments and marketable equity securities, restructuring of a joint venture, cash acquired in the AudioLogic acquisition and decreases in the amount of restricted cash. These increases were offset by increases on deposits and other long term assets as well as capital expenditures.

We used $10.9 million in cash for financing activities during the first three quarters of fiscal 2001 while using $12.6 million in cash for financing activities during the comparable period of fiscal 2000. During first three quarters of fiscal 2001, we used cash to repurchase $28.1 million par value of our 6% convertible subordinated notes for $24.9 million, and paid another $11.7 million of long-term debt and capital lease obligations. In addition to this, we received $20.7 million in proceeds from the issuance of our common stock relating to the exercise of stock options and $5.0 million in equity contributions from joint venture partners. Cash used in financing activities for fiscal 2000 was due to payments on our outstanding debt partially offset by new issuances of stock relating to the exercise of stock options.

At December 30, 2000, we had $265.1 million of cash and cash equivalents of which $11.0 million is restricted cash. The restrictions on cash are due to outstanding letters of credit required for certain leases agreements. We do not expect the amount of restricted cash to change significantly during the fourth quarter of fiscal 2001.

Historically, we have generated cash in an amount sufficient to fund our operations. 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 the foreseeable future. We may revise our operating plans in response to future changes in the semiconductor industry in general and the demand for our products in particular. We believe that significant changes in the economic environment, which may affect worldwide demand for technology products, could materially and adversely impact us, including with respect to such matters as our ability to fund its future operations.

FACTORS THAT MAY AFFECT FUTURE OPERATING RESULTS

WE HAVE HISTORICALLY EXPERIENCED FLUCTUATIONS IN OUR OPERATING RESULTS AND

EXPECT THESE FLUCTUATIONS MAY CONTINUE IN FUTURE PERIODS.

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

o the volume and timing of orders received;

o changes in the mix of our products sold;

o market acceptance of our products and the products of our customers;

o competitive pricing pressures;

o our ability to expand manufacturing output to meet increasing demand;

o our ability to introduce new products on a timely basis;

o fixed costs associated with minimum purchase commitments under supply contracts if demand decreases;

o the timing and extent of our research and development expenses;

o cyclical semiconductor industry conditions;

o the failure to anticipate changing customer product requirements;

o fluctuations in manufacturing costs;

o disruption in the supply of wafers or assembly services;

o the ability of customers to make payments to us;

o increases in material costs;

o certain production and other risks associated with using independent manufacturers; and

o product obsolescence, price erosion and other competitive factors.

Historically in the integrated circuit industry, average selling prices of products have decreased over time. If we are unable to introduce new products with higher margins or reduce manufacturing costs to offset anticipated decreases in the prices of our existing products, our operating results will be adversely affected. Our business is characterized by short-term orders and shipment schedules, and customer orders typically can be canceled or rescheduled without penalty to the customer. In addition, because of fixed costs in the integrated circuit industry, we are limited in our ability to reduce costs quickly in response to any revenue shortfalls. As a result of the foregoing or other factors, we may experience material adverse fluctuations in our future operating results on a quarterly or annual basis.

OUR SUCCESS DEPENDS ON OUR ABILITY TO INTRODUCE NEW PRODUCTS ON A TIMELY

BASIS.

Our success depends upon our ability to develop new precision linear and mixed-signal circuits for new and existing markets, to introduce such products in a timely manner, and to have such products gain market acceptance. The development of new precision linear and mixed-signal circuits is highly complex and from time to time we have experienced delays in developing and introducing new products. Successful product development and introduction depends on a number of factors, including:

o proper new product definition,

o timely completion of design and testing of new products,

o achievement of acceptable manufacturing yields, and

o market acceptance of our products and the products of our customers.

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

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

OUR PRODUCTS ARE COMPLEX AND COULD CONTAIN DEFECTS, WHICH COULD REDUCE

SALES OF THOSE PRODUCTS OR RESULT IN CLAIMS AGAINST US.

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

o material recall and replacement costs for product warranty and support;

o our customer relationships could also be adversely impacted by the recurrence of significant defects;

o delay in recognition or loss of revenues, loss of market share or failure to achieve market acceptance; and

o diversion of the attention of our engineering personnel from our product development efforts.

The occurrence of any of these problems could result in the delay or loss of market acceptance of our products and would likely harm our business. In addition, any defects or other problems with our products could result in financial or other damages to our customers who could seek damages from us for their losses. A product liability claim brought against us, even if unsuccessful, would likely be time consuming and costly to defend.

THE INTEGRATED CIRCUIT INDUSTRY IS VERY CYCLICAL AND AN INDUSTRY DOWNTURN

WOULD ADVERSELY AFFECT OUR BUSINESS.

The integrated circuit industry is characterized by:

o rapid technological change;

o cyclical market patterns;

o significant price erosion;

o periods of over-capacity and production shortages;

o variations in manufacturing costs and yields; and

o significant expenditures for capital equipment and product development.

The industry has from time to time experienced depressed business conditions. Although the semiconductor industry in recent periods has experienced increased demand and production capacity constraints, we cannot assure you that these conditions will continue. In addition, we cannot assure you that any future downturn in the industry will not be severe or that any such downturn will not have a material adverse effect on our business and results of operations. We cannot assure you that we will not experience substantial period-to-period fluctuations in operating costs due to general semiconductor industry conditions or other factors.

ANY DOWNTURN IN THE MARKETS WE SERVE WOULD HARM OUR BUSINESS.

A majority of our products are incorporated into products such as personal computers, mass storage, audio and industrial electronics, and embedded processor products. These markets may from time to time experience cyclical, depressed business conditions, often in connection with, or in anticipation of, a decline in general economic conditions. Such industry downturns have resulted in reduced product demand and declining average selling prices. Our business would be harmed by any future downturns in the markets that we serve.

The following sections detail the risks associated with serving these various markets

THERE ARE RISKS ASSOCIATED WITH OUR DEPENDENCE ON THE PC MARKET.

The following are risks associated with our involvement in the PC markets:

o greatly pronounced demand fluctuations characteristic of our role as a component supplier to PC original equipment manufacturers, or OEMs, and to peripheral device manufacturers;

o our involvement in the consumer PC market, the most volatile segment of the PC market;

o increased competition from other IC makers, including Intel Corporation, who plan to incorporate features into or with their microprocessor products which replicate those of our products;

o loss of customer base as we refocus on non-PC markets; and

o as a supplier to manufacturers at different levels of the production chain, our potential dependence on the success of a particular PC OEM due to our inability to accurately identify end-users of our product.

THERE ARE RISKS ASSOCIATED WITH SERVING THE MAGNETIC AND OPTICAL STORAGE

MARKETS.

The following are risks associated with serving the mass storage market:

o historically dramatic supply and demand fluctuations in the magnetic disk drive market, which is closely linked to growth in the PC market;

o direct correlation between the competitive nature of the disk drive industry and the price of disk drive components;

o our dependence on the success of certain 3.5 inch magnetic disk drive products that incorporate our products into their design;

o our dependence on the successful introduction by our customers of new disk drive products that in turn can be impacted by the timing of customers' transition to new disk drive products;

o reduced demand for our mass storage products due to recent efforts by certain of our customers to develop their own ICs for mass storage products;

o our ability to respond effectively to the market trend of integrating hard disk controllers with micro-controllers; and

o our ability to successfully compete with other firms with greater resources to accomplish the technical obstacles of integration and greater access to the advanced technologies necessary to provide integrated HDD electronic components.

THERE ARE RISKS RELATED TO SERVING THE AUDIO PRODUCTS MARKETS.

In the audio products market, we have the potential to experience decreased revenues due to

o decreased average selling prices in the audio IC market due to the PC industry's transition to the AC-link codecs attached to core logic using the multimedia features of the processor and single chip solution;

o in the PC audio products market, the transition to core logic connected audio and by the introduction of cheaper, fully-integrated, single-chip audio ICs;

o aggressive competitive pricing pressures in the audio ICs market; and

o the inability of our audio products to meet cost or performance requirements of the three-dimensional, spatial-effects audio market.

THERE ARE RISKS RELATED TO SERVING THE PRECISION DATA CONVERSION MARKET.

Decreased revenues from sales to the precision mixed-signal products market could be caused by the following:

o our inability to establish broad sales channels and our failure to develop and maintain a sufficiently broad competitive product line;

o customer delays in their product development and introductions ;

o our inability to reach the marketplace due to the technical complexity of our products and the time requirements for their development; and

o our inability to attract, hire, and retain scarce analog engineering talent necessary for rapid product development in this market.

THERE ARE RISKS RELATED TO SERVING THE EMBEDDED PROCESSOR PRODUCTS MARKET.

We could experience decreased revenues from sales of our embedded processor products due to the following factors:

o increased competition from other semiconductor manufacturers now entering the market due to the increased popularity of consumer goods incorporating embedded processor products, such as portable digital audio players, smart cellular phones, set-top Internet and e-mail access boxes, and personal digital appliances;

o our inability to meet embedded processor products requirements of an industry that has yet to define product standards;

o customer delays in their product development and introductions; and

o price competition from over 30 other embedded processor products manufacturers who have licensed ARM Ltd. CPU cores, the same CPU core we license, and who will likely produce products around these cores which are very similar to ours.

SHIFTS IN INDUSTRY-WIDE CAPACITY MAY CAUSE OUR RESULTS TO FLUCTUATE AND SUCH SHIFTS HAVE RESULTED AND COULD IN THE FUTURE RESULT IN SIGNIFICANT INVENTORY WRITE-DOWNS.

Shifts in industry-wide capacity from shortages to oversupply or from oversupply to shortages may result in significant fluctuations in our quarterly or annual operating results. We must order wafers and build inventory well in advance of product shipments. Because the integrated circuit industry is highly cyclical and is subject to significant downturns resulting from excess capacity, overproduction, reduced demand or technological obsolescence, there is a risk that we will forecast inaccurately and produce excess or insufficient inventories of particular products. This inventory risk is heightened because many of our customers place orders with short lead times. Due to the product manufacturing cycle characteristic of integrated circuit manufacturing and the inherent imprecision by our customers to accurately forecast their demand, product inventories may not always correspond to product demand, leading to shortages or surpluses of certain products. As a result of such inventory imbalances, future inventory write-downs may occur due to lower of cost or market accounting, excess inventory or inventory obsolescence.

BECAUSE FOUNDRY CAPACITY IS LIMITED WE MAY BE REQUIRED TO ENTER INTO COSTLY

LONG-TERM SUPPLY ARRANGEMENTS TO SECURE FOUNDRY CAPACITY.

We currently purchase all of our wafers from outside foundries. Market conditions could result in wafers being in short supply and prevent us from having adequate supply to meet our customer requirements. Any prolonged inability to utilize our foundries as a result of fire, natural disaster or otherwise would have a material adverse effect on our financial condition and results of operations. If we are not able to obtain additional foundry capacity as required, our business could be harmed in the following ways:

o our relationships with our customers would be harmed and consequently our sales would likely be reduced; and

o we may be forced to purchase wafers or packaging from higher cost suppliers or to pay expediting charges to obtain additional supply

In order to secure additional foundry capacity, we have entered into contracts that commit us to purchase specified quantities of silicon wafers over extended periods. In fact, during fiscal 1998 and fiscal 1999, the industry experienced an excess in production capacity that we believe, in some cases, resulted in our competitors paying wafer prices which were lower than our cost of production from our manufacturing joint ventures. Consequently, we experienced pressures on our selling prices during fiscal years 1998, 1999 and 2000, which harmed our revenues and reduced our margins. In the future, we may not be able to secure capacity with foundries in a timely fashion or at all, and such arrangements, if any, may not be on terms favorable to us. Moreover, if we are able to secure foundry capacity, we may be obligated to utilize all of that capacity or incur penalties. Such penalties may be expensive and could harm our financial results.

WE ARE DEPENDENT ON OUR SUBCONTRACTORS IN ASIA TO PERFORM KEY MANUFACTURING

FUNCTIONS FOR US.

We depend on third party subcontractors in Asia for the supply and packaging of our products. 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 we seek to reduce our dependence on our sole and limited source suppliers, this concentration of suppliers and manufacturing operations in Asia subjects us to the risks of conducting business internationally, including political and economic conditions in Asia. Any disruption or termination of any of our supply or manufacturing could occur, and such disruptions could harm our business and operating results.

WE HAVE SIGNIFICANT INTERNATIONAL SALES AND RISKS ASSOCIATED WITH OUR

INTERNATIONAL SALES COULD HARM OUR OPERATING RESULTS.

Export sales, principally to Asia, include sales to U.S-based customers with manufacturing plants overseas, and accounted for approximately 75%, 74% and 53% of our net sales in 2000, 1999 and 1998, respectively. We expect export sales to continue to represent a significant portion of product sales. This reliance on sales internationally subjects us to the risks of conducting business internationally, including political and economic conditions. For example, the financial instability in a given region, such as Asia, may have an adverse impact on the financial position of end users in the region which could impact future orders and/or the ability of such users to pay us or our customers, which could also impact the ability of such customers to pay us. While we expect to carefully evaluate the collection risk related to the financial position of customers and potential customers in structuring the terms of sale, in determining whether to accept sales orders, and in evaluating the recognition of revenue, if a region's volatility harms the financial position of our customers, our results of operations could be harmed. Our international sales operations involve a number of other risks, including:

o unexpected changes in regulatory requirements;

o changes in diplomatic and trade relationships;

o delays resulting from difficulty in obtaining export licenses for technology;

o tariffs and other barriers and restrictions; and

o the burdens of complying with a variety of foreign laws.

In addition, while we may buy hedging instruments to reduce our exposure to currency exchange rate fluctuations, our competitive position can be affected by the exchange rate of the U.S. dollar against other currencies, particularly the Japanese yen. Consequently, increases in the value of the dollar would increase the price in local currencies of our products in foreign markets and make our products relatively more expensive. We cannot assure you that regulatory, political and other factors will not adversely affect our operations in the future or require us to modify our current business practices.

POTENTIAL INTELLECTUAL PROPERTY CLAIMS AND LITIGATION COULD SUBJECT US TO

SIGNIFICANT LIABILITY FOR DAMAGES AND COULD INVALIDATE OUR PROPRIETARY RIGHTS.

Our success depends on our ability to obtain patents and licenses and to preserve our other intellectual property rights covering our manufacturing processes, products and development and testing tools. We seek patent protection for those inventions and technologies for which we believe such protection is suitable and is likely to provide a competitive advantage to us. Notwithstanding our attempts to protect our proprietary rights, we believe that our future success will depend primarily upon the technical expertise, creative skills and management abilities of our officers and key employees rather than on patent and copyright ownership. We also rely substantially on trade secrets and proprietary technology to protect our technology and manufacturing know-how, and work actively to foster continuing technological innovation to maintain and protect our competitive position.

The integrated circuit industry is characterized by frequent litigation regarding patent and other intellectual property rights. We cannot assure you that any patent owned by us will not be invalidated, circumvented or challenged, that rights granted thereunder will provide competitive advantages to us or that any of our pending or future patent applications will be issued with the scope of the claims sought by us, if at all. In addition, effective copyright and trade secret protection may be unavailable or limited in certain foreign countries. We cannot assure you that steps taken by us to protect our intellectual property will be adequate or that our competitors will not independently develop or patent substantially equivalent or superior technologies.

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

STRONG COMPETITION IN THE HIGH-PERFORMANCE INTEGRATED CIRCUIT MARKET MAY HARM OUR BUSINESS.

The high-performance integrated circuit industry is highly competitive and subject to rapid technological change. Significant competitive factors in our markets include:

o product features, reliability, performance and price;

o the diversity and timing of new product introductions;

o the emergence of new computer standards and other customer systems;

o product quality;

o efficiency of production; and

o customer support.

Because of shortened product life cycles and even shorter design-in cycles, our competitors have increasingly frequent opportunities to achieve design wins in next generation systems. In the event that competitors succeed in supplanting our products, our market share may not be sustainable and net sales, gross margin, and results of operations would be adversely affected. Our principal competitors include: Analog Devices, Applied Micro Devices, Atmel, Burr-Brown, Creative Technologies, ESS Technologies, Intel, Linear Technology, Lucent Technologies, Motorola, ST Microelectronics, Texas Instruments and Yamaha, many of whom have substantially greater financial and other resources than we do with which to pursue engineering, manufacturing, marketing and distribution of their products. We expect intensified competition from emerging companies and from customers who develop their own integrated circuit products. Increased competition could adversely affect our business. We cannot assure you that we will be able to compete successfully in the future or that competitive pressures will not adversely affect our financial condition and results of operations. Competitive pressures could reduce market acceptance of our products and result in price reductions and increases in expenses that could adversely affect our business and our financial condition.

In addition, our future success depends, in part, upon the continued service of our key engineering, marketing, sales, manufacturing, support, and executive personnel, and on our 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 our business.

YEAR 2000 UPDATE

To date there has been no negative impact to our business as a result of the Year 2000 date change. We will continue to monitor date issues going forward but do not anticipate that such issues will affect our business in the future.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Reference is made to Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in the Registrant's Annual Report on Form 10-K for the Year Ended March 25, 2000.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We and certain of our customers from time to time have been notified that they may be infringing certain patents and other intellectual property rights of others. Further, customers have been named in suits alleging infringement of patents by the customer products. Certain components of these products have been purchased from us and may be subject to indemnification provisions made by us to the customers. Although licenses are generally offered in such situations, there can be no assurance that litigation will not be commenced in the future regarding patents, mask works, copyrights, trademarks, trade secrets, or indemnification liability, or that any licenses or other rights can be obtained on acceptable terms. Currently, we are a plaintiff/counter defendant in one patent infringement suit and one of multiple defendants in another, unrelated patent infringement suit. While the ultimate outcome cannot be predicted with certainty, we do not expect these matters to have a material adverse effect on our consolidated financial position.

Occasionally, suits arise from prior business relationships. We have been named in three such matters, one filed by a prior distributor, another unrelated matter by a former employee and another unrelated matter where we are named as a shareholder. While the ultimate outcome cannot be predicted with certainty, we do not expect these matters to have a material adverse effect on our consolidated financial position.

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

None.

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

None

b. Reports on Form 8-K

The registrant filed a Current Report on Form 8-K on October 4, 2000, pursuant to Item 5 of Form 8-K reporting a call for an October 19, 2000 redemption of $135,000,000 aggregate principal amount of its 6% Convertible Subordinated Notes, due 2003. The registrant also reported it had been authorized to take action with respect to the remaining $111,885,000 uncalled notes.

The registrant filed a Current Report on Form 8-k on October 4, 2000, pursuant to Item 5 of Form 8-K reporting it had filled a vacancy on its Board of Directors.

The registrant filed a Current Report on Form 8-K on October 23, 2000, pursuant to Item 5 of Form 8-K reporting a call for a November 7, 2000 redemption of $111,875,000 aggregate principal amount of its 6% Convertible Subordinated Notes, due 2003.

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)

February 13, 2001	*/s/ ROBERT W. FAY*
Date	*---------------------------------------*
	Robert W. Fay
	Vice President, Chief Financial Officer