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

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**Form 10-K**

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

**For the Fiscal Year Ended March 29, 2003**

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

**For the Transition Period from            to**

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**Commission File Number 0-17795**

**Cirrus Logic, Inc.**

**Delaware**  
*(State of incorporation)*

**77-0024818**  
*(I.R.S. ID)*

**2901 Via Fortuna, Austin, TX 78746**  
**(512) 851-4000**

**Securities registered pursuant to Section 12(b) of the Act:**  
**None**

**Securities registered pursuant to Section 12(g) of the Act:**  
**Common Stock, \$0.001 Par Value**  
**Preferred Stock Purchase Rights**

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes  No

The aggregate market value of the registrant's voting and non-voting stock held by non-affiliates was approximately \$182 million based upon the closing price reported on the NASDAQ National Market as of September 28, 2002. For purposes of this disclosure, shares of Common Stock held by persons who hold more than 5 percent of the outstanding shares of Common Stock and shares held by officers and directors of the Registrant have been excluded because such persons may be deemed to be affiliates. This determination is not necessarily conclusive for other purposes.

As of June 2, 2003, the number of outstanding shares of the registrant's Common Stock, \$0.001 par value, was 83,761,621.

**DOCUMENTS INCORPORATED BY REFERENCE**

There is incorporated by reference in Part III of this Annual Report on Form 10-K certain information contained in the registrant's proxy statement for its annual meeting of stockholders to be held July 31, 2003.

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**CIRRUS LOGIC, INC.**

**FORM 10-K  
For the fiscal year ended March 29, 2003**

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**PART I**

**Item 1. Business**

Cirrus Logic (“we,” “us,” “our,” or the “Company”) is a leader in digital audio, video and high-performance mixed-signal integrated circuits (“ICs”) for consumer entertainment, automotive entertainment and industrial applications. We develop and market integrated ICs and embedded software used by original equipment manufacturers (“OEMs”). We also provide complete system reference designs based on our technology that enable our customers to bring products to market in a timely and cost-effective manner.

We were founded in 1984 and were reincorporated in the State of Delaware in February 1999. With headquarters in Austin, Texas and major sites in Fremont, California and Broomfield, Colorado, we also serve customers from international offices in Asia, including the People’s Republic of China and Japan, and Europe. Our common stock, which has been publicly traded since 1989, is listed on the NASDAQ National Market under the symbol CRUS.

We maintain a Web site with the address *www.cirrus.com*. We are not including the information contained on our Web site as a part of, or incorporating it by reference into, this Annual Report on Form 10-K. We make available free of charge through our Web site our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission.

**Background of the Semiconductor Industry**

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

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

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

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

### Markets and Products

Our digital audio, video, and high-performance mixed-signal products are used in consumer entertainment, automotive entertainment, and industrial applications. During most of fiscal 2003, we organized our products into the following product categories:

*Audio:* mixed-signal products for consumer, industrial, automotive, communications, and computer audio; digital home audio processors and digital portable processors; commercial audio processors; automotive audio solutions; and embedded processors.

*Video:* digital video recorder and DVD player products.

*Game Console:* components for DVD game consoles.

We offer more than 200 products to over 3,500 customers worldwide through both direct and indirect sales channels. Our major customers are among the world's leading electronics manufacturers. We target both large existing and emerging growth consumer electronic markets that derive value from our expertise in advanced mixed-signal design processing, systems-level integrated circuit engineering, and embedded software.

## AUDIO

### 1. Mixed-Signal Processing Components

We are a recognized leader in mixed-signal technologies that enable today's new home and automotive entertainment products, as well as high-precision industrial measurement applications.

#### *Consumer Mixed-Signal*

We are a leader in precision mixed-signal audio for audio converters. We have developed a wide range of solutions for multiple market segments. Our value in serving this market includes our ability to offer high-quality, cost-effective solutions to OEMs that help them accelerate their time-to-market with advanced audio products. Our products include audio analog-to-digital converters ("ADCs"), audio digital-to-analog converters ("DACs"), audio encoder/decoders ("CODECs") that integrate ADCs and DACs into a single IC, digital interface IC ("S/PDIF"), TV encoders ("Video DAC"), and digital amplifiers. These proprietary products leverage a patent portfolio of more than 125 patents focused on mixed-signal technology.

Our products include:

- the CS5341 and CS5342, which are ADCs for digital audio systems. They perform sampling, analog-to-digital ("A/D") conversion, and anti-alias filtering, generating 24-bit values for both left and right inputs in serial form at sample rates of up to 200 kHz per channel;
- the CS4398, which is a complete stereo 24-bit, 192 kHz DAC;
- the CS42516/18/26/28 family, which enables advanced features such as DVD-Audio to be added affordably to a broader range of consumer systems. This innovative CODEC family also provides design flexibility and performance levels for a wide range of applications; and
- the CS8416, which is a digital interface product that receives and decodes one of eight channels of audio data according to various audio interface standards.

Our products are used by customers in brands such as Bose, Denon, Digi Design, Harman Kardon, Kenwood, Mackie, Marantz, Onkyo, Panasonic, Philips, Pioneer, Sony, Technics, and Yamaha.

#### *Industrial Mixed-Signal*

We are a leader in high precision mixed-signal ICs for industrial measurement. Our products are used in industrial measurement, power meter, and geophysical applications. Types of applications include the digital

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measurement of energy, temperature gauges for industrial use, seismic devices for oil field and seismology applications, and high-precision weigh scales for commercial and scientific use. We offer a broad line of ADCs that use patented self-calibration techniques that improve accuracy and reduce system-level cost. Our products include:

- the CS5516 and CS5520, which are complete solutions for digitizing low-level signals from strain gauges, load cells, and weigh scales;
- the CS3001/02/11/12, which is a new CMOS operational amplifier family designed to achieve optimum performance while reducing component count and bill of materials costs. Process control, medical and test equipment, temperature measurement, and weigh scale applications are a few of the target markets needing these innovative operational amplifiers; and
- the CS5471, which is a highly integrated, ADC developed for the power measurement industry.

Our customers include ABB, Mettler-Toledo, National Instruments, Rockwell Automation, Schlumberger, and Western Geco.

### *Automotive Mixed-Signal*

We have several dozen existing products that support new automotive audio and “infotainment” applications. In order to expand our automotive product sales, we are in the process of obtaining ISO9001, ISO14001 and TS16949 certifications. ISO9001 is a corporate-wide quality assurance certification that encompasses design, development, and production of our technology solutions. ISO/ TS-16949 is an automotive-specific certification for semiconductor suppliers developed in part by the DaimlerChrysler/ Ford/ General Motors Supplier Requirements Task Force to ensure high, consistent standards by semiconductor suppliers. ISO14001 is an environmental management system certification aimed at supporting environmental protection and pollution prevention.

In addition to the certifications listed above, we hold a seat on the Automotive Electronics Council (“AEC”) At-Large Members, Electronics Device Manufacturers. The AEC is currently working on the next revision of its AEC-Q100 specification covering stress test qualification for packaged integrated circuits. The AEC-Q100 is a device-specific certification that assists in the “part approval process” by standardizing the qualification procedures used for automotive application integrated circuits.

In fiscal year 2003, our customers included Bose Corporation and Delphi Corporation.

### *Other Mixed-Signal*

#### *Communications*

We also design and market embedded Ethernet semiconductors for use in consumer and industrial applications. In addition, we develop and market telephony ICs, primarily T1/ E1/ J1 Line Interface Units, which provide switched interface solutions for telecommunications and data communications equipment.

#### *Computer Audio*

Our chips are also incorporated into the motherboards of desktop and notebook computers and workstations, as well as in external cards that plug into computers and workstations that enable audio functions on those machines. We have decided to de-emphasize our computer audio product line.

## **2. Audio Entertainment Processors**

We are a leading provider of digital audio solutions, from high-end commercial audio to mass-market consumer electronics. We have been a recognized market share leader in digital audio ICs since 1998.

### *Digital Home Audio*

Our home audio products are incorporated into multi-channel, surround-sound audio/video receivers (“AVRs”) and home-theater-in-a-box systems. We are a leading supplier of digital audio processors to the home audio/video receiver market. Integrated DSP products, our largest product offering in this market, decode all industry standards of digital multi-channel audio. Our product line consists of three distinct families of DSPs, which are designed to support a variety of standards, including Dolby® Digital, MPEG-2 stereo decoding, MPEG-2 multi-channel decoding, DTS® multi-channel decoding, and AAC™ two-channel decoding. These products provide a complete and flexible solution for multi-channel audio decoding in home audio/video receiver/amplifiers, DVD movie players, HDTV sets, set-top boxes, and similar products.

Our newest family of DSPs integrates a multi-channel audio decoder and a 32-bit audio processor with an audio-optimized software framework. Feature-rich AVR designs can be easily developed using the framework, which includes both certified application programs provided by us as well as a modular programming environment for easy customization. This family also provides system level peripherals and internal memory, allowing many processing tasks, including Dolby Digital, AAC, DTS-ES 96/24, and THX® Ultra 2 Cinema, to be accomplished without external logic or memory.

Our customers include Bose, Harman Kardon, Kenwood, LG Electronics, Marantz, Onkyo, Panasonic, Pioneer, RCA/ Thomson, Sony, and Yamaha.

### *Digital Portable Audio*

Our portable audio products are incorporated into flash memory-based MP3/ WMA (“Windows Media® Audio”) compressed audio players, CD-based MP3/ WMA players, and hard disk drive-based jukeboxes. MP3 technology typically provides a greater than ten-to-one file size reduction for digital audio content. Our products in this area provide a comprehensive solution to address flash, CD, and hard-disk drive MP3/ WMA players through powerful processing capabilities and advanced features for the music and technology enthusiast. In addition to the extensive feature set for this market, these products have low-power requirements and a small package size, which makes them a standard-setting IC solution for portable electronics. These solutions are versatile enough to support both high-end and low-end applications.

Our products include:

- the CS7410, which is a scalable, high-performance, single-chip digital audio processing solution that supports CD-DA, MP3, WMA and future compression standards. Designed to add compressed music playback capability to mainstream audio products, the CS7410 is a hardware/ software solution optimized for CD-based audio systems, including portable CD players, boomboxes and bookshelf audio mini systems; and
- the EP7312, which is a highly integrated embedded processor that runs at clock speeds up to 90 MHz, allowing for real-time MP3 encoding, as well as decoding for all major digital music standards. The processor delivers high performance with low power, enabling advanced user interfaces and operating systems in battery powered entertainment devices.

Our customers include Creative Technologies, iRiver, Inc., and Sanyo Electric Co.

### *Commercial Audio*

With our fiscal year 2002 acquisition of Peak Audio, Inc. (“Peak”), we expanded our commercial audio product set to include the commercial audio industry’s leading technology for distributing uncompressed, real-time, digital audio over Fast Ethernet networks based on CobraNet™ technology. CobraNet technology has been deployed at a variety of venues, including rock concerts, opera halls, resorts, championship sports events and the United States Senate. As of March 29, 2003, over 30 entities have licensed CobraNet as their solution for audio networking.

In fiscal year 2003, we announced that we plan to offer the CS18101, a digital audio networking processor, which will be the first release of CobraNet technology integrated into a DSP. We intend to launch

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the CS18101 in fiscal year 2004 and believe that it will result in a reduction in the cost of incorporating CobraNet technology into a product, allowing manufacturers to offer audio networking in a lower-cost group of products. Capable of handling eight bi-directional audio channels, we believe that the new CS18101 will be well suited for use in power speakers, power amplifiers, signal-processing devices, and mixing consoles.

CobraNet licensees include Bose KK Japan, BSS Audio, Crown, JBL, Mackie, Shure, and Yamaha.

### 3. Embedded Processors

Our family of 32-bit general-purpose microprocessors supports a wide range of price performance points and applications for consumer and industrial applications. Our product line is built around industry-standard ARM® processor cores, which offers an extensive range of development tools and qualified software products, reducing the time-to-market for new applications. We currently offer six general-purpose microprocessors leveraging the ARM cores, including the EP9312, which is a highly integrated system-on-chip processor based on the ARM920T processor core.

Our customers include Ceiva, Creative Technologies, Good Technology, iRiver, Kenwood, Matsushita, Motorola, Onkyo, Phatnoise, RayMarine, Raytheon, Sagem, Samsung, and Sanyo.

## VIDEO

We are focused on providing versatile silicon and software solutions for such markets as DVD players, DVD receivers, portable DVD devices, DVD recorders, and DVD-based Personal Video Recorders (“PVRs”). This strategy is designed to help manufacturers get to market faster with cost-effective, proven video-enabled solutions.

### Digital Video Recorders

We are a mass-market supplier for digital video recording, offering a complete hardware/ software platform designed to speed OEMs’ time to market. We enhanced our video product line through our fiscal year 2002 acquisition of Stream Machine Company (“Stream Machine”). Our consumer entertainment video product line provides MPEG-2 encoders for DVD recorders, hard disk-based PVRs, and PC Video recording peripherals.

Our products include the CS92288, which is a single chip, real-time MPEG-2 audio/video CODEC that is targeted for consumer video recording products such as DVD recorders, PVRs, and video capture peripherals for PCs. It includes an integrated system multiplexor/demultiplexor and an on-screen display feature. In addition, the CS92288 is capable of encoding and decoding MP3 audio, making it capable of supporting “jukebox” functionality in hard disk-drive devices.

Our customers for digital video products include ADS Technology, Apex Digital, Mustek, and Samsung.

### DVD Players

We enhanced our video product line through our fiscal year 2002 acquisition of LuxSonor Semiconductors, Inc. (“LuxSonor”). Our consumer entertainment video product line provides MPEG-2 decoders for controlling DVD players and portable DVD players.

Our products include:

- the CS98100, which is a DVD processor solution that provides all of the audio and video processing functions needed for mass-market DVD players, such as MP3 decoding, Dolby Digital and DTS output support. The CS98100 also has one of the lowest power consumptions in the industry, which makes it appealing for battery-powered applications, such as portable DVD players; and
- the CS98200, which is our flagship DVD processor, combining advanced audio functionality, including support for DVD-Audio, and high-quality progressive scan technology. The CS98200 forms the host processor for our platforms for the emerging markets in digital video recorders.

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Our customers include APEX Digital, Bose Corporation, CyberHome, and TCL.

### **GAME CONSOLES**

During fiscal year 2003, we provided components for two of the leading DVD game consoles. We sold DVD drive manager components to one purchaser under a volume purchase agreement, which delivery terms have been fulfilled. We also provide high precision, mixed-signal audio converter products into this market.

### **Manufacturing**

We contract with third parties for all of our wafer fabrication and assembly, as well as for a portion of our testing. Our fabless manufacturing strategy allows us to concentrate on our design strengths, minimize fixed costs and capital expenditures, access advanced manufacturing facilities, and provides flexibility on sourcing multiple leading-edge technologies through strategic alliances. After wafer fabrication by the foundry, third-party assembly vendors package the wafer die. The finished products are then sent for testing, either to third-party testers or to our internal test facility, before shipment to our customers. Our manufacturing organization qualifies each product, participates in process and package development, defines and controls the manufacturing process at our suppliers, develops test programs, and performs production testing of products in accordance with our ISO-certified quality management system. We use multiple foundries, assembly houses, and test houses.

### **Patents, Licenses and Trademarks**

We rely on trade secret, patent, copyright, and trademark laws to protect our intellectual property products and technology. We intend to continue this practice in the future to protect our products and technologies. As of March 29, 2003, we held 947 U.S. patents, 246 U.S. patent applications pending, and various corresponding international patents and applications. Our U.S. patents expire in years 2005 through 2022.

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

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

### **Research and Development**

We concentrate our research and development efforts on the design and development of new products for each of our principal markets. We also fund certain advanced-process technology development, as well as other emerging product opportunities. Expenditures for research and development in fiscal years 2003, 2002, and 2001 were \$95.3 million, \$108.1 million, and \$122.6 million, respectively. These amounts exclude acquired in-process research and development expenses and amortization of acquired intangibles of \$17.8 million, \$42.5 million, and \$3.4 million in fiscal years 2003, 2002, and 2001, respectively. Our future success is highly dependent upon our ability to develop complex new products, to transfer new products to volume production in a timely fashion, to introduce them to the marketplace ahead of the competition, and to have them selected for design into products of leading systems manufacturers. Our future success may also depend on assisting our customers with integration of our components into their new products, including providing support from the concept stage through design, launch, and production ramp.

### **Competition**

Markets for our products are highly competitive, and we expect that competition will continue to increase. We compete with other semiconductor suppliers that offer standard semiconductors, application-specific integrated circuits (“ASICs”), and fully customized integrated circuits, including embedded software,

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chip, and board-level products. A few customers also develop integrated circuits that compete with our products. Our competitive strategy has been to provide lower-cost versions of existing products and new, more advanced products for customers' new designs.

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

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

Competition typically occurs at the design stage, where the customer evaluates alternative design approaches that require integrated circuits. Because our products have not been available from second sources, we generally do not face direct competition in selling our products to a customer once our integrated circuits have been designed into that customer's system. In products with relatively short life cycles and even shorter design-in cycles, for example, DVD players, 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 margins and earnings would be adversely affected.

### **Sales, Marketing and Technical Support**

Our products are sold worldwide; however, we sell principally to Asia. Export sales, which include sales to U.S.-based customers with manufacturing plants overseas, were 77 percent in fiscal year 2003, 85 percent in fiscal year 2002, and 82 percent in fiscal year 2001. We maintain a worldwide sales force, which is intended to provide geographically specific selling support to our customers and specialized selling of product lines with unique customer bases.

Our domestic sales force includes a network of regional direct sales offices located in California, Colorado, Illinois, Maryland, Massachusetts, Oregon, Texas, and Virginia. International sales offices and organizations are located in, Hong Kong, Japan, the People's Republic of China, Singapore, South Korea, Taiwan, and the United Kingdom. We supplement our direct sales force with sales representative organizations and distributors. Technical support staff is located at the sales offices and at our facilities in California, Colorado, Texas, Indiana, India, Japan, two locations in the People's Republic of China, and Singapore.

### **Backlog**

Sales are made primarily pursuant to standard short-term purchase orders for delivery of standard products. The quantity actually ordered by the customer, as well as the shipment schedules, are frequently revised, without significant penalty, to reflect changes in the customer's needs. As a result, we believe that our backlog at any given time is not a meaningful indicator of future revenues.

### **Employees**

As of March 29, 2003, we had 905 full-time equivalent employees, of whom 48 percent were engaged in research and product development activities, 31 percent in sales, marketing, general and administrative activities, and 21 percent in manufacturing-related activities. Our future success depends, in part, on our ability to continue to attract, retain and motivate highly qualified technical, marketing, engineering, and management personnel.

Due to the highly competitive nature of the marketplace that we operate in, we may from time to time lose key employees to certain of our competitors. We have been able to hire qualified personnel in the past to

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fill open positions created by these occurrences, although there can be no assurance that we will be able to do this in the future. None of our employees is represented by collective bargaining agreements.

### Factors Affecting Our Business and Prospects

Our business faces significant risks. The risk factors set forth below may not be the only ones that we face. Additional risks that we are not aware of yet or that currently are not material may adversely affect our business operations.

*Further weakening or delayed recovery in the highly cyclical semiconductor equipment industry may adversely affect our business.*

We are subject to business cycles, and it is difficult to predict the timing, length, or volatility of these cycles. After growth in 1999 and 2000, the condition of the semiconductor industry declined significantly in 2001, and it has not recovered. Further weakening or delayed recovery could continue to adversely affect our business. During downturns, customers usually reduce purchases, delay delivery of products, shorten lead times on orders, and/or cancel orders. These downturns create pressure on our net sales, gross margins, and operating income. In addition, these downturns may result in retention issues with our employees, who are vital to our success.

We cannot assure you that this continued weakness, or any future 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 revenue due to general semiconductor industry conditions or other factors.

*Our business is highly dependent on the expansion of the consumer digital entertainment electronics market.*

We changed the focus of our business to the consumer digital entertainment electronics market. We are focusing on audio/video (“A/V”) receivers, compressed personal audio players, DVD recorders and players, digital automotive audio applications, set-top boxes, and PVRs. We expect the consumer digital market to expand; however, our strategy may not be successful. Given current economic conditions in the United States and internationally, as well as the large installed base of consumer electronics products, consumer spending on home electronic products may not increase as expected. In addition, the potential decline in consumer confidence and consumer spending relating to future terrorist attacks could have a material adverse effect on our business.

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

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

- the volume and timing of orders received,
- changes in the mix of our products sold,
- market acceptance of our products and the products of our customers,
- competitive pricing pressures,
- our ability to introduce new products on a timely basis,
- the timing and extent of our research and development expenses,
- the failure to anticipate changing customer product requirements,
- disruption in the supply of wafers, assembly or test services,

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- certain production and other risks associated with using independent manufacturers, assembly houses, and testers, and
- product obsolescence, price erosion, competitive developments, and other competitive factors.

### ***Our success depends on our ability to introduce new products on a timely basis.***

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

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

Although we seek to design products that have the potential to become industry standard products, we cannot assure you that the market leaders will adopt any products introduced by us, 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 software engineers, 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.

### ***Strong competition in the high-performance integrated circuit market may harm our business.***

The integrated circuit industry is intensely competitive and is characterized by rapid technological change, price erosion, and design and other technological obsolescence. Because of shortened product life cycles and even shorter design-in cycles in a number of the markets that we serve, particularly consumer entertainment, 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 margins, and results of operations would be adversely affected.

Our principal competitors include AKM Semiconductors, ALi Semiconductor, AMD, ATMEL, Analog Devices, Broadcom, Conexant, ESS Technologies, Fujitsu DSP, Intel, Linear Technology, LSI Logic, Maxim, Mediatek, Motorola, Philips, Samsung Semiconductor, Sharp Semiconductor, SigmaTel, ST Microelectronics, Sunplus, Texas Instruments, Tripath, Wolfson, Yamaha, and Zoran, many of whom have substantially greater financial, engineering, manufacturing, marketing, technical, distribution and other resources, broader product lines, greater intellectual property rights, and longer relationships with customers

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than we have. We also expect intensified competition from emerging companies and from customers who develop their own integrated circuit products. In addition, some of our current and future competitors maintain their own fabrication facilities, which could benefit them in connection with cost, capacity and technical issues.

Increased competition could adversely affect our business. We cannot assure 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.

***Our products are characterized by average selling prices that decline over short time periods; if we are unable to introduce new products with higher selling prices or reduce our costs, our business and operating results could be harmed.***

Historically in the integrated circuit industry, average selling prices of products have decreased over time, while many of our manufacturing costs are fixed. If we are unable to introduce new products with higher margins or to reduce manufacturing costs to offset anticipated decreases in the prices of our existing products, our operating results may be adversely affected. In addition, because of high fixed costs in our industry, we are limited in our ability to reduce total costs quickly in response to any revenue shortfalls. Because of these factors, we may experience material adverse fluctuations in our future operating results on a quarterly or annual basis.

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

Export sales, principally to Asia, include sales to U.S.-based customers with manufacturing plants overseas, and accounted for 77 percent, 85 percent, and 82 percent of our net sales in fiscal years 2003, 2002, and 2001, 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, and the effects of the current outbreak of Severe Acute Respiratory Syndrome, (“SARS”), on our customers, employees and contract manufacturers in Asia. For example, the financial instability in a given region, such as Asia, may have an adverse impact on the financial position of end users in the region, which could impact future orders and harm our results of operations. Our international sales operations involve a number of other risks, including:

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

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regulatory, political, and other factors will not adversely affect our operations in the future or require us to modify our current business practices.

***The expansion of our international operations subjects our business to additional economic risks that could have an adverse impact on our business.***

In addition to export sales constituting a majority of our net sales, we are expanding our international operations. Specifically, we have recently focused our efforts on expanding in the People's Republic of China by employing design, sales and technical support personnel. In addition, we are also using contract manufacturers in the region for foundry, assembly and/or test operations. Expansion into this region has required and will continue to require significant management attention and resources. We have limited experience in the Chinese market and may not succeed in expanding our presence into this market or other international markets. Failure to do so could harm our business. In addition, there are risks inherent in expanding our presence into foreign regions, including, but not limited to:

- difficulties in staffing and managing foreign operations,
- failure of foreign laws to protect our U.S. proprietary rights adequately,
- additional vulnerability from terrorist groups targeting American interests abroad,
- legal uncertainty regarding liability and compliance with foreign laws, and
- regulatory requirements.

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

- material recall and replacement costs for product warranty and support,
- adverse impact to our customer relationships by the occurrence of significant defects,
- delay in recognition or loss of revenues, loss of market share, or failure to achieve market acceptance, and
- 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.

***Our sales may fluctuate due to seasonality of customer demand.***

As our sales to the consumer entertainment market increase, we are more likely to be affected by seasonality in the sales of our products. Approximately half of consumer electronics products are sold worldwide during the holiday season. As a result, we expect a disproportionate amount of our sales to occur in our second and third fiscal quarters in anticipation of the holiday season.

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

Competition for personnel in our industry is intense. The number of technology companies in the geographic areas in which we operate is greater than it has been historically, and we expect competition for qualified personnel to intensify. There are only a limited number of people in the job market with the requisite skills. Our human resources organization focuses significant efforts on attracting and retaining individuals in key technology positions. Declining stock market prices, however, make retention more difficult, as prior equity grants contain less value and key employees pursue equity opportunities elsewhere. In addition, start-up companies generally offer larger equity grants to attract individuals from more established companies. The loss of the services of any key personnel or our inability to hire new personnel with the requisite skills could restrict our ability to develop new products or enhance existing products in a timely manner, sell products to our customers, or manage our business effectively.

***We may incur inventory charges or write-downs as a result of shifts in industry-wide capacity and our practice of purchasing our products based on sales forecasts.***

Shifts in industry-wide capacity from shortages to oversupply, or from oversupply to shortages, may result in significant fluctuations in our quarterly and annual operating results. We must order wafers and build inventory well in advance of product shipments. Because our industry is highly cyclical and is subject to significant downturns resulting from excess capacity, overproduction, reduced demand, order cancellations, or technological obsolescence, there is a risk that we will forecast inaccurately and produce excess inventories of particular products.

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

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 or charges may occur due to the lower of cost or market accounting, excess inventory, or inventory obsolescence.

***We rely on independent foundries to manufacture our products, which subjects us to increased risks.***

We rely on independent foundries to manufacture all of our wafers. Our reliance on these foundries involves several risks and uncertainties, including:

- the possibility of an interruption or loss of manufacturing capacity,
- the lack of control over delivery schedules, quality assurance, manufacturing yields and costs,
- possible misappropriation of our intellectual property, and
- the inability to reduce our costs as quickly as competitors who manufacture their own products and are not bound by set prices.

Market conditions could result in wafers being in short supply and prevent us from having adequate supply to meet our customer requirements. In addition, any prolonged inability to utilize third-party foundries because 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 relationships with our customers would be harmed and, consequently, our sales would likely be reduced, and we may be forced to purchase wafers from higher-cost suppliers or to pay expediting charges to obtain additional supply, if we are able to acquire wafers at all.

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In order to secure additional foundry capacity, we may enter into contracts that commit us to purchase specified quantities of silicon wafers over extended periods. In the future, we may not be able to secure sufficient 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. These 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 assembly, packaging, and testing 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, as well as the risks of natural disaster. Although we seek to reduce our dependence on our limited number of subcontractors, this concentration of subcontractors and manufacturing operations in Asia subjects us to the risks of conducting business internationally, including political and economic conditions in Asia. Disruption or termination of the assembly, packaging or testing of our products could occur, and such disruptions could harm our business and operating results. In addition, we are unable to predict whether the emerging SARS epidemic will have a negative effect on the supply and packaging of our products.

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

In fiscal years 2003, 2002, and 2001, sales to our distributors accounted for 57 percent, 38 percent, and 17 percent, respectively, of our net sales. The future of our business, as well as the future growth of our business, will depend in part on our ability to manage our relationships with current and future distributors and sales representatives, develop additional channels for the distribution and sale of our products, and manage these relationships. The inability to successfully do so could adversely affect our business.

***We may need to acquire other companies or technologies and successfully integrate them into our business to compete in our industry.***

We acquired LuxSonor, ShareWave, Inc. (“ShareWave”) and Stream Machine, as well as the assets of Peak, in fiscal year 2002. We will continue to consider future acquisitions of other companies, or their technologies or products, to improve our market position, broaden our technological capabilities, and expand our product offerings. However, we may not be able to acquire, or successfully identify, the companies, products or technologies that would enhance our business.

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

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

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

### ***We may be unable to protect our intellectual property rights from third-party claims and litigation.***

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. We also rely substantially on trade secrets, proprietary technology, non-disclosure and other contractual agreements, and technical measures to protect our technology and manufacturing know-how, and work actively to foster continuing technological innovation to maintain and protect our competitive position. We cannot assure you that steps taken by us to protect our intellectual property will be adequate, that our competitors will not independently develop or patent substantially equivalent or superior technologies or be able to design around our patents, or that our intellectual property will not be misappropriated. Also, the laws of some foreign countries may not protect our intellectual property as much as the laws of the United States.

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

The semiconductor 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 under the patent will provide competitive advantages to us, or that any of our pending or future patent applications will be issued with the scope of the claims sought by us, if at all.

As is typical in the semiconductor industry, we and our customers have from time to time received, and may in the future receive, communications from third parties asserting patents, mask work rights, or copyrights on certain of our products and technologies. In the event third parties were to make a valid intellectual property claim and a license was not available on commercially reasonable terms, our operating results could be harmed. Litigation, which could result in substantial cost to us and diversion of our 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.

### ***If we are unable to make continued substantial investments in research and development, we may not be able to sell our products.***

We make significant investments in research and development activities to develop new and enhanced products and solutions. If we fail to make sufficient investments in research and development programs, new technologies could render our current and planned products obsolete, and our business could be harmed.

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

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

- actual or anticipated fluctuations in our operating results,
- announcements concerning our business or those of our competitors or customers,
- changes in financial estimates by securities analysts or our failure to perform as anticipated by the analysts,
- announcements regarding technological innovations,
- litigation,
- patents or proprietary rights,
- departure of key personnel,
- general conditions in the semiconductor industry, and
- general market conditions.

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*We have provisions in our charter, and are subject to certain provisions of Delaware law, that could prevent, delay or impede a change of control of our company.*

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

- our Rights Plan, which the Board of Directors adopted in May 1998 as an anti-takeover measure. The provisions of this plan can be triggered only in certain limited circumstances following the tenth day after a person or group announces acquisitions of or tender offers for 15 percent or more of our common stock;
- elimination of the right of stockholders to call a special meeting of stockholders;
- a prohibition on stockholder action by written consent; and
- a requirement that stockholders provide advance notice of any stockholder nominations of directors or any proposal of new business to be considered at any meeting of stockholders.

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

### **Item 2. Properties**

As of May 1, 2003, our principal facilities, located in Austin, Texas, consisted of approximately 254,000 square feet of leased office and test space, which have leases that expire from 2003 to 2012, excluding renewal options. This space is used for product development and testing, sales, marketing, and administration. It includes our new headquarters and engineering facility that we moved into in fiscal year 2003, which has 197,000 square feet. In connection with this move, we vacated approximately 157,000 square feet of leased office space in Austin, Texas. Included in the total leased office space in Austin, Texas is 33,000 square feet that we are subleasing to a third party through April 2004. We will pursue subleasing this space when the current tenant exits the property.

We also lease facilities in Fremont, California. These facilities consist of approximately 485,000 square feet of leased office and engineering space, which have leases that expire from 2004 to 2009, excluding renewal options. In connection with our facilities consolidation activities begun in fiscal 1999, we have subleased approximately 263,000 square feet of this office space. One of our California tenants exited their sublease for approximately 145,000 square feet with us during the fiscal year for a one-time payment of \$7.4 million. During fiscal year 2003, we reduced our California lease properties by approximately 55,000 square feet through lease terminations.

We also have the following design centers and sales support offices:

<b>Design Centers</b>	<b>Sales and Support Offices — USA</b>	<b>Sales Support Offices — International</b>
Broomfield, Colorado	Broomfield, Colorado	Japan
Ft. Wayne, Indiana	Chicago, Illinois	People's Republic of China
India	Columbia, Maryland	Singapore
Japan	Burlington, Massachusetts	South Korea
People's Republic of China	Portland, Oregon	Taiwan
Singapore	Chesapeake, Virginia	United Kingdom

### **Item 3. Legal Proceedings**

#### **Fujitsu**

On October 19, 2001, we filed a lawsuit against Fujitsu, Ltd. in the United States District Court for the Northern District of California. We are alleging claims for breach of contract and anticipatory breach of contract, and seek damages in excess of \$46 million. The basis for our complaint is Fujitsu's refusal to pay for chips delivered to and accepted by it. On December 17, 2001, Fujitsu filed an answer and a counterclaim. Fujitsu alleges claims for breach of contract, breach of warranty, quantum meruit/equitable indemnity, and declaratory relief. The basis for the claims is our sale of allegedly defective chips to Fujitsu, which chips allegedly caused Fujitsu's hard disk drives to fail. The counterclaim does not specify the damages Fujitsu

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seeks, other than to allege it has sustained “tens of millions” of dollars in damages. Our claim is based on chips that are not included in Fujitsu’s counterclaim but for which Fujitsu has not paid. To facilitate the resolution of all claims in one lawsuit, including our claims against potentially responsible third parties, we and Fujitsu agreed to realign our claims with Fujitsu as the plaintiff and us as the defendant and counterclaimant. This realignment allowed us to file in the same lawsuit a third-party claim alleging breach of contract and warranty against Amkor Technology, Inc., the company that recommended and sold us the goods that allegedly caused Fujitsu’s hard disk drives to fail. Amkor filed an answer to our third-party claim and a third-party complaint for implied contractual indemnity against Sumitomo Bakelite Co., Ltd., the company that sold the allegedly defective goods to Amkor. The trial is scheduled for July 2004. At this time, we are unable to assess the potential outcome of this litigation. We intend to defend and prosecute our lawsuit vigorously. Further, we believe that any potential liability in connection with Fujitsu’s counterclaim is covered by insurance coverage and claims we have against third parties.

### **Western Digital**

On July 5, 2001, Western Digital Corporation and its Malaysian subsidiary, Western Digital (M) SDN.BHD, filed a lawsuit against us in the Superior Court of the State of California, Orange County, in connection with the purchase of “read channel” chips from us, as explained in more detail below. On August 20, 2001, we filed a cross-complaint against the plaintiffs, and on October 9, 2001, the Court granted our motion for judgment on the pleadings that resulted in the dismissal of the plaintiffs’ entire original complaint.

The plaintiffs filed an amended complaint, in which they alleged that they entered into an oral supply contract for “read channel” chips with us, and that we breached the contract and our duty of good faith and fair dealing. This amended complaint seeks, among other things, unspecified damages, which appear to be in excess of \$60 million, and declaratory relief. We filed a cross-complaint against the plaintiffs, alleging causes of action for breach of contract, fraud and negligent misrepresentation. We are seeking damages in excess of \$53 million, as well as punitive damages. The plaintiffs currently owe us amounts exceeding \$53 million for products we have shipped and for non-cancelable orders placed with us.

On December 24, 2001, the trial court granted our application for writs of attachment against the plaintiffs in the amount of approximately \$25 million. The plaintiffs appealed the order, and the court of appeals affirmed the decision of the trial court on May 6, 2003. Pursuant to an agreement we entered into, the plaintiffs have delivered to us a letter of credit in the amount of approximately \$25 million in substitution for an attachment of their property. We will have the right to draw under the letter of credit in the event we prevail in the litigation.

On December 31, 2002, the court granted our motion for summary adjudication of five of the seven causes of action in the plaintiffs’ first amended complaint. On April 25, 2003, the court granted the plaintiffs leave to file a second amended complaint. The trial is scheduled for December 2003. We intend to collect all amounts owed to us. We have not accrued for any amount we may be ordered to pay the plaintiffs because we do not believe this outcome is probable. If an adverse judgment were to occur, the amount cannot be quantified at this time.

### **LuxSonor**

On January 8, 2003, we prevailed in the arbitration proceeding with the former shareholders of LuxSonor regarding claims we made against the escrow account. This escrow account was set up to compensate us in the event of certain breaches of warranties and covenants by LuxSonor made in the Agreement of Merger and in the event that LuxSonor failed to have a working capital balance of at least \$1.0 million as of the merger closing date. We were awarded \$6.9 million, including \$0.4 million in attorneys’ fees and interest, of our \$7.8 million claim.

On January 21, 2003, we filed a second claim against the LuxSonor escrow account for \$2.1 million in connection with certain patent infringement issues for which we paid \$2.1 million during fiscal year 2003. We settled this claim and received approximately \$2.0 million on February 24, 2003. We recorded this \$2.0 million

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as a component of “Other Expense, net” on the income statement as an offset to the expense associated with the related patent infringement settlement.

On April 9, 2003, we filed our last claim for approximately \$760,000, comprised of (i) certain penalties and fees we assumed in connection with the acquisition, (ii) an uncollectible accounts receivable, (iii) unreported accounts payable, and (iv) patent infringement issues.

### ATI and NVIDIA

On May 16, 2003, we initiated a lawsuit in the Western District of Texas, Austin Division, against ATI Technologies Inc. and NVIDIA Corporation for infringement of our United States Patent No. 5,841,418. As part of our complaint, we are seeking damages and a permanent injunction against further infringement by certain graphics processors made, used, sold, offered for sale, or imported into the United States by ATI and NVIDIA.

### Other Claims

On June 3, 2003, we were notified that the Inland Revenue Authority of Singapore disagreed with our classification of sales to certain customers from May 1997 to March 1998, resulting in additional goods and services taxes owed by us. In the event we do not prevail, we could owe approximately \$5 million, plus interest and penalties. We plan to contest this claim and, if necessary, to pursue reimbursement from these customers. We are unable at this time to make a determination regarding the outcome of this matter.

From time to time, various claims, charges, and litigation are asserted or commenced against us arising from, or related to, contractual matters, intellectual property, employment disputes, as well as other issues. Frequent claims and litigation involving these types of issues are not uncommon in the semiconductor industry. As to any of these claims or litigation, we cannot predict the ultimate outcome with certainty. In the event a third party makes a valid intellectual property claim and a license is not available on commercially reasonable terms, we would be forced either to redesign or to stop production of products incorporating that intellectual property, and our operating results could be materially and adversely affected. Litigation may also be necessary to enforce our intellectual property rights or to defend us against claims of infringement, and this litigation may be costly and divert the attention of key personnel.

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

None.

## PART II

#### Item 5. *Market for Registrant’s Common Equity and Related Stockholder Matters*

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

	High	Low
Fiscal year ended March 30, 2002		
First quarter	\$25.76	\$ 9.25
Second quarter	29.28	6.00
Third quarter	16.25	6.11
Fourth quarter	20.45	13.05
Fiscal year ended March 29, 2003		
First quarter	\$19.47	\$ 5.00
Second quarter	8.47	2.31
Third quarter	6.50	1.47
Fourth quarter	3.49	1.80

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As of June 2, 2003, there were approximately 1,348 holders of record of our Common Stock.

We have not paid cash dividends on our Common Stock and currently intend to continue a policy of retaining any earnings for reinvestment in our business.

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

The information contained below should be read in conjunction with “Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Item 8 — Financial Statements and Supplementary Data.” Certain reclassifications have been made to conform to the fiscal year 2003 presentation. These reclassifications had no effect on the results of operations or stockholders’ equity, other than as disclosed in Note 6 in the Notes to our Consolidated Financial Statements contained in “Item 8 — Financial Statements and Supplementary Data.”

	Fiscal Years Ended				
	2003	2002	2001	2000	1999
Net sales	\$ 261,999	\$ 410,976	\$769,635	\$564,400	\$ 628,105
Income (loss) from continuing operations	(197,761)	(204,081)	143,231	(46,752)	(381,372)
Basic earnings (loss) per share from continuing operations	\$ (2.37)	\$ (2.63)	\$ 2.00	\$ (0.76)	\$ (6.77)
Diluted earnings (loss) per share from continuing operations	\$ (2.37)	\$ (2.63)	\$ 1.86	\$ (0.76)	\$ (6.77)
Financial position at year end:					
Total assets	\$ 257,266	\$ 481,630	\$598,005	\$504,832	\$ 532,630
Working capital	95,786	127,478	372,212	235,575	163,290
Capital lease obligations, excluding current portion	—	51	—	321	1,457
Long-term debt, excluding current portion	—	—	336	3,147	12,960
Convertible subordinated notes	—	—	—	299,000	300,000

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

This Annual Report on Form 10-K and certain information incorporated herein by reference contain forward-looking statements within the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. All statements included or incorporated by reference in this Annual Report on Form 10-K, other than statements that are purely historical, are forward-looking statements. Words such as “we expect,” “anticipate,” “target,” “project,” “believe,” “goals,” “estimates,” and “intend,” variations of these types of words, and similar expressions are intended to identify these forward-looking statements. Readers are cautioned that these forward-looking statements are predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Among the important factors that could cause actual results to differ materially from those indicated by our forward-looking statements are those discussed in “Item 1 — Business” under the subheading “Factors Affecting Our Business and Prospects” and elsewhere in this report, as well as in the documents filed by us with the Securities and Exchange Commission, specifically the most recent reports on Form 10-Q and 8-K, each as it may be amended from time to time. We undertake no obligation to revise or update publicly any forward-looking statement for any reason.

Certain reclassifications have been made to conform to the fiscal year 2003 presentation. These reclassifications had no effect on the results of operations or stockholders’ equity, other than as disclosed in Note 6 in the Notes to our Consolidated Financial Statements contained in “Item 8 — Financial Statements and Supplementary Data.”

We are a leader in digital audio, video and high-performance mixed-signal ICs for consumer entertainment, automotive entertainment and industrial applications. We develop and market integrated ICs and

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embedded software used by OEMs. We also provide complete system reference designs based on our technology that enable our customers to bring products to market in a timely and cost-effective manner.

### Results of Operations

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

	Fiscal Years Ended		
	March 29, 2003	March 30, 2002	March 31, 2001
Net sales	100%	100%	100%
Gross margin	50%	24%	38%
Research and development	36%	26%	16%
Selling, general and administrative	28%	23%	14%
Restructuring costs and other, net	3%	3%	(2)%
Acquired in-process research and development expenses and amortization of acquired intangibles	7%	11%	—%
Impairment of goodwill and other intangibles	52%	—%	—%
Lease termination costs	2%	—%	—%
Provision (benefit) for doubtful accounts	—%	18%	—%
Income (loss) from operations	(78)%	(57)%	10%
Realized gain (loss) on marketable equity securities	—%	3%	11%
Interest expense	—%	—%	(1)%
Interest income	1%	2%	2%
Other expense, net	—%	—%	(1)%
Income (loss) before income taxes and loss from discontinued operations	(77)%	(52)%	21%
Provision (benefit) for income taxes	(2)%	(2)%	2%
Income (loss) from continuing operations	(75)%	(50)%	19%
Loss from discontinued operations	(1)%	—%	—%
Income (loss) before extraordinary gain and accounting change	(76)%	(50)%	19%
Extraordinary gain, net of income taxes	—%	—%	—%
Cumulative effect of change in accounting principle	—%	—%	—%
Net income (loss)	(76)%	(50)%	19%

#### Net Sales

Net sales for fiscal year 2003 decreased \$149.0 million, or 36 percent, to \$262.0 million from \$411.0 million in fiscal year 2002. The decrease in our net sales was due primarily to decreased sales in our magnetic storage product line, which we exited in fiscal year 2002, of \$129.4 million. Game console product line sales decreased by \$27.8 million from the prior year as demand from one of our two game console customers declined. Our end-of-life product line sales decreased by \$2.8 million from the prior year. These decreases were partially offset by an increase in our audio product line sales of \$4.6 million and an increase in our video product line sales of \$6.4 million. The audio increase was primarily driven by increased sales of consumer audio applications, partially offset by declines in computer audio. The video increase was primarily related to the full year effect of our acquisitions in fiscal year 2002. Despite this increase in video, we did not

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capitalize as we had hoped on the expanding market for DVD players, and the market for DVD recorders did not materialize as quickly as we had anticipated.

Net sales for fiscal year 2002 decreased \$358.6 million, or 47 percent, to \$411.0 million from \$769.6 million in fiscal year 2001. The decrease in net sales from fiscal years 2002 to 2001 was driven primarily by a \$200.1 million decrease in sales of magnetic storage products due to our exit from that business during the second quarter of fiscal year 2002. Additionally, sales from our audio products decreased \$144.9 million in fiscal year 2002 compared with fiscal year 2001, mainly due to poor market conditions across our product lines and due to a decline in computer audio, as we de-emphasized this particular product line. Sales of end-of-life products decreased \$85.4 million in fiscal year 2002 from fiscal year 2001. These decreases were partially offset by increased sales in our game console product line of \$57.4 million due to increased sales to one of our game console customers. We also had increased sales in our video product line of \$14.4 million from the prior fiscal year primarily as a result of our fiscal year 2002 acquisitions.

Effective with the first quarter of fiscal year 2001, we changed our revenue recognition policy in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin No. 101 ("SAB 101"), "*Revenue Recognition in Financial Statements*," resulting in a change in the basis for recognizing revenue on all shipments from the date of shipment to the date of passage of title. Results for fiscal year 2001 include revenue of \$5.2 million, cost of sales of \$3.5 million, and a cumulative effect of change in accounting principle on prior years' accumulated deficit of \$1.7 million as a result of this change.

Export sales, principally to Asia, including sales to U.S.-based customers with manufacturing plants overseas, were approximately \$201.1 million in fiscal year 2003, \$349.6 million in fiscal year 2002, and \$631.1 million in fiscal year 2001. Export sales to customers located in the Pacific Rim (excluding Japan) were 62 percent, 51 percent, and 36 percent of net sales in fiscal years 2003, 2002, and 2001, respectively. Export sales to customers located in Japan were 6 percent, 27 percent, and 39 percent of net sales in fiscal years 2003, 2002, and 2001, respectively. All other export sales were 9 percent, 7 percent, and 7 percent of net sales in fiscal years 2003, 2002, and 2001, respectively.

Our sales are denominated primarily in U.S. dollars. During fiscal year 2003, we did not enter into any foreign currency hedging contracts. During fiscal year 2002 and 2001, we entered into various foreign currencies forward contracts to mitigate the foreign exchange risk of certain yen-denominated net balance sheet accounts and sales. As of March 30, 2002, we did not have any foreign exchange contracts outstanding.

In fiscal year 2003, sales to Thomson Multimedia accounted for approximately 12 percent of net sales. In fiscal year 2002, sales to two customers, Fujitsu and Thomson Multimedia, accounted for approximately 21 percent, and 15 percent, respectively, of net sales. In fiscal year 2001, sales to Fujitsu and Western Digital accounted for approximately 25 percent and 13 percent, respectively, of net sales. No other customers accounted for 10 percent or more of net sales in fiscal years 2003, 2002, or 2001. The loss of a significant customer or a significant reduction in such a customer's orders could have an adverse effect on our sales. As a result of our exit from the magnetic storage business in the second quarter of fiscal year 2002, we are not currently selling magnetic storage products to Fujitsu or Western Digital. Our sales to Thomson Multimedia primarily consisted of DVD drive manager devices that are included in Microsoft's Xbox. These game console sales were made under a volume purchase agreement, which terms have been fulfilled.

### *Gross Margin*

Gross margin was 50 percent in fiscal year 2003, up notably from 24 percent in fiscal year 2002. The increase in gross margin was primarily related to a reduction in significant inventory charges that were present in fiscal year 2002, as well as improved product mix as we exited the magnetic storage product line.

Gross margin was 24 percent in fiscal year 2002, down from 38 percent in fiscal year 2001. The decrease in gross margin from fiscal year 2001 was primarily the result of inventory charges recorded during fiscal year 2002. In connection with our workforce reduction during the third quarter of fiscal year 2002, we went through a detailed market and product review and, as a result, decided to de-emphasize certain products. We recorded a net inventory charge of \$55.1 million related to our restructuring efforts and the exit from our magnetic

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storage product line, and \$14.3 million, mainly to reserve inventory that was in excess of short-term usage forecasts.

### *Research and Development Expenses*

Research and development expenses decreased \$12.8 million in fiscal year 2003 from the prior year. This decrease was primarily due to the fiscal year 2003 cost reductions and the realization of the full year impact of the fiscal year 2002 cost reduction efforts, partially offset by the full year of costs related to the acquisitions we completed in the third quarter of fiscal year 2002. In fiscal year 2003, we have removed the amortization of acquisition-related intangibles from research and development expenses (and combined them with acquired in-process research and development expenses) to better highlight our core research and development cost. Despite the decline in absolute dollar amounts, research and development expenses increased as a percentage of net sales from 26 percent in fiscal year 2002, to 36 percent in fiscal year 2003, due to the decline in net sales year over year. In fiscal year 2003, we realigned our research and development function, brought increased discipline to our software process, and improved our software personnel and leadership, all focused on improving the breadth of our software solutions, while continuing our other research and development activities.

Research and development expenses decreased by \$14.5 million in fiscal year 2002 from the prior year. This decrease was primarily the result of reduced costs due to the implementation during fiscal year 2002 of cost reduction and expense control measures, including our workforce reductions in May 2001 and October 2001. Despite the decline in absolute dollar amounts, research and development expenses increased as a percentage of net sales from 16 percent in fiscal year 2001 to 26 percent in fiscal year 2002 due to the decline in net sales year over year.

### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses decreased by \$21.1 million in fiscal year 2003 from the prior year, primarily due to the fiscal year 2003 cost reductions and the realization of the full year impact of the fiscal year 2002 cost reduction efforts, partially offset by the full year of costs related to the acquisitions we completed in the third quarter of fiscal year 2002. Selling, general and administrative expenses increased as a percentage of net sales from 23 percent in fiscal year 2002 to 28 percent in fiscal year 2003, despite the decrease in the absolute dollar amounts due to the decrease in net sales year over year.

Selling, general and administrative expenses decreased by \$15.0 million in fiscal year 2002 from the prior year, primarily due to decreased costs resulting from the implementation of cost reduction and expense control measures in fiscal year 2002. Selling, general and administrative expenses increased as a percentage of net sales from 14 percent in fiscal year 2001 to 23 percent in fiscal year 2002 despite the decrease in the absolute dollar amounts due to the decrease in net sales year over year.

### *Restructuring Costs and Other, Net*

During fiscal year 2003, we eliminated approximately 290 employee positions worldwide, or approximately 25 percent of the total workforce, from various business functions and job classes as a continuation of our fiscal year 2002 effort to further reduce costs and align operating expenses with our current revenue model. In fiscal year 2003, we recorded a restructuring charge of \$3.8 million in operating expenses for costs associated with these workforce reductions, \$2.5 million to fully expense certain assets (intangible, fixed, and other) that will no longer be used as a result of our workforce reductions, and \$2.3 million related to facility consolidations. As part of these restructuring activities, we closed our wireless product line, acquired in October 2001 with our acquisition of ShareWave, and the associated El Dorado Hills, California office. Although ShareWave offered compelling technology, the return on investment appeared to be too far into the future to justify continued investment. As a result, we have decided to focus our on-going investment on higher margin analog components and solutions for digital entertainment applications that utilize our audio and video technologies. We continue to evaluate opportunities to streamline and consolidate facilities and may incur additional charges related to these consolidations. See Note 11 in the Notes to our Consolidated

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Financial Statements contained in “Item 8 — Financial Statements and Supplementary Data” for further detail.

During fiscal year 2002, we announced a change to our business strategy, exited the magnetic storage chip business, and focused on consumer-entertainment electronics. As a result of these strategic decisions and in response to ongoing economic and industry conditions, we eliminated approximately 420 employee positions worldwide from various business functions and job classes over the course of fiscal year 2002. We recorded a restructuring charge of \$6.4 million in operating expenses to cover costs associated with these workforce reductions. In addition, we recorded a \$4.5 million restructuring charge in operating expenses for costs associated with facility consolidations.

As of March 29, 2003, we have a remaining restructuring accrual for all of our past restructurings of \$5.2 million, primarily related to net lease expenses that will be paid over the respective lease terms through fiscal 2013, along with other anticipated lease termination costs.

In fiscal year 2001, we recorded \$12.5 million in income to recognize the receipt of two previously reserved notes from Intel Corporation on behalf of Basis Communications Corporation. We also recorded \$1.8 million in income, related to the final resolution of the MiCRUS restructuring agreement.

### *Acquired In-Process Research and Development Expenses and Amortization of Acquired Intangibles*

During fiscal year 2003, we recorded \$17.8 million in amortization of acquired intangibles related to the acquisitions of ShareWave, LuxSonor, Stream Machine, and the assets of Peak, each in fiscal year 2002, and AudioLogic, Inc. (“AudioLogic”) in fiscal year 2000. The amortization pertains to certain other intangible assets that were acquired with the in-process research and development that is explained in detail below. See *Impairment of Goodwill and Other Intangibles* below for a discussion of the impairment of the ShareWave acquired intangibles.

During fiscal year 2002, we recorded \$31.3 million of acquired in-process research and development expenses, resulting from our acquisitions as detailed below. We also recorded \$11.2 million related to the amortization of acquired intangibles from the prior acquisitions. We expensed the in-process research and development amounts on the acquisition date because the acquired technology had not yet reached technological feasibility and had no future alternative uses. The acquired in-process research and development from the four fiscal year 2002 acquisitions pertains to different technologies and products. We periodically review the stage of completion and likelihood of success of each of the in-process research and development projects.

The estimated percentage of completion for the in-process research and development projects as of March 29, 2003 was as follows:

Product	Percentage of Completion
Peak signal processing product	100%
Other Peak product	100%
ShareWave Project A	—
ShareWave Project B	—
LuxSonor	100%
Stream Machine	100%

We exited our wireless product line, which includes ShareWave projects “A” and “B” in the fourth quarter of fiscal year 2003.

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The value assigned to each acquired in-process research and development project as of the acquisition date was as follows (in thousands):

Product	Value Assigned
Peak signal processing product	\$ 1,860
Other Peak product	50
ShareWave Project A	8,500
ShareWave Project B	5,900
LuxSonor	8,600
Stream Machine	6,400
	<u>\$31,310</u>

During fiscal year 2001, we recorded \$3.4 million related to the amortization of acquisition intangibles for our acquisition of AudioLogic.

### *Impairment of Goodwill and Other Intangibles*

Effective March 31, 2002, we performed a transitional impairment test on all net goodwill totaling \$124.6 million. Our transitional impairment test did not indicate that our goodwill had been impaired; as a result, no impairment charge was recorded.

We performed our first annual goodwill impairment test in accordance with SFAS 142 in the fourth quarter of fiscal year 2003. We performed step one of the two-step process to determine the fair value of Cirrus Logic at the consolidated level because we are a single reporting unit. The step one analysis of our fair market value was based on our market capitalization as of the first day of the second month of the fourth fiscal quarter, adjusted for an assumed control premium. The step one analysis indicated that our carrying value exceeded our fair value, so we were required to perform step two of the impairment test. Step two involved allocating the fair value of Cirrus Logic at the consolidated level to all of our assets and liabilities, with the excess of total fair value over the fair value allocated to our net assets representing the implied fair value of goodwill. We engaged an independent valuation consultant to assist us in determining the fair value of our assets and liabilities. As a result of our impairment test, we impaired all of our goodwill, recording a non-cash charge of \$126.0 million as a component of impairment of goodwill and other intangibles.

As part of our restructuring activities during the fourth quarter of fiscal year 2003, we closed our wireless product line, acquired in October 2001 in connection with our acquisition of ShareWave, and the associated El Dorado Hills, California office. As a result, we recorded a \$9.7 million charge in fiscal year 2003 for the entire net book value of the related acquired intangible assets, primarily core technology/patents and one customer agreement. This charge was recorded as a component of impairment of goodwill and other intangibles. The customer agreement terminated during the fourth quarter of fiscal year 2003 and, therefore, had no future value. We are no longer using the technology and associated patents. We were unsuccessful in our efforts to market the technology and associated patents and, therefore, determined their fair value to be zero. As a result of our analysis, we fully impaired the associated acquired intangible assets.

Due to customer contract negotiations during the fourth quarter of fiscal year 2003, we also reviewed the acquired intangibles pertaining to customer agreements from our fiscal year 2000 acquisition of AudioLogic for potential impairment. As a result, we recorded a \$0.5 million charge in fiscal year 2003 for the entire net book value of the customer agreements acquired intangible. This charge was recorded as a component of impairment of goodwill and other intangibles.

### *Lease Termination Costs*

In fiscal year 2003, we bought out a multi-year lease agreement on unused space resulting from our acquisition of Stream Machine in fiscal year 2002 for \$7.5 million and recorded a \$4.6 million charge. The

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charge represented the difference between the payment to the landlord and the reversal of the remaining accrual recorded in fiscal year 2002 as part of the acquisition.

### *Provision for Doubtful Accounts*

During fiscal year 2002, we recorded a \$73.3 million charge to reserve disputed magnetic storage receivables from Western Digital and Fujitsu, with whom we are currently involved in litigation. If we are successful in collecting these receivables through the ongoing litigation, we will record an equivalent benefit for doubtful accounts. During fiscal year 2001, we recorded a benefit for doubtful accounts of \$1.4 million primarily due to the release of excess bad debt reserves.

### *Realized Gain on Marketable Equity Securities*

During fiscal year 2003, we realized a gain of \$1.4 million related to our receipt of the remaining proceeds previously held back by Intel on our fiscal year 2001 sale of our holdings in Basis Communications (“Basis”). This gain was partially offset by a \$1.2 million loss realized on our investments in certain public companies due to “other than temporary” declines in the fair value of those investments.

During fiscal year 2002, we realized a gain of \$9.8 million related to our receipt of proceeds previously held back by Intel on our fiscal year 2001 sale of our holdings in Basis and a gain of \$1.2 million related to the sale of call options in Openwave Systems, Inc. (formerly known as Phone.com) common stock.

In fiscal year 2001, we realized a net gain of \$86.9 million related to the sale of investments. The net gain was 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. We recorded a gain of \$79.5 million related to this sale in fiscal year 2001. Intel withheld \$11.2 million from the total consideration paid pursuant to the indemnification provisions of the merger agreement between Intel and Basis, all of which we have received in fiscal years 2003 and 2002.

### *Interest Expense*

Interest expense was \$0.2 million, \$0.2 million, and \$11.8 million in fiscal years 2003, 2002, and 2001, respectively. Interest expense remained unchanged from fiscal year 2002 to fiscal year 2003. The decrease in interest expense in fiscal year 2002 compared to fiscal year 2001 was mainly due to the repurchase and conversion of \$299.0 million of our 6 percent convertible subordinated notes in fiscal year 2001.

### *Interest Income*

Interest income in fiscal years 2003, 2002, and 2001, was \$2.6 million, \$8.3 million, and \$18.0 million, respectively. The decrease in interest income in fiscal year 2003 compared with fiscal year 2002 and fiscal year 2002 compared to fiscal year 2001 was primarily due to lower cash and cash equivalent balances, on which interest was earned, and to lower interest rates.

### *Other Expense, Net*

Other expense, net in fiscal year 2003 of \$0.4 million consisted primarily of a charge of \$0.3 million related to the write-off of a warrant held as an investment in a private company. Other expense, net in fiscal year 2002 of \$0.9 million was mainly due to a charge of \$1.0 million related to write-offs and write-downs of investments in private companies. Other expense, net in fiscal year 2001 of \$4.9 million included a charge of \$2.0 million related to the settlement of a litigation dispute, a write-off of \$0.5 million relating to an investment in a private company, and foreign currency translation losses of \$2.4 million.

### *Income Taxes*

We recorded an income tax benefit of \$3.8 million for fiscal year 2003 on a pre-tax loss of \$201.6 million, which represents an effective income tax rate of 1.9 percent. The primary reason our benefit was lower than

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the U.S. statutory rate of 35 percent was that we were not able to fully benefit from our current or prior year's net operating losses. Our tax benefit included the reversal of \$4.0 million of prior-year state tax liabilities. This reversal was due to the favorable resolution of a state tax audit. In addition, we received a \$0.5 million Federal income tax refund as the result of our ability, under new Federal tax laws, to carry our fiscal year 2002 loss back to fiscal 1998. These benefits were offset by \$0.7 million of income tax expense that consisted of \$0.6 million of income taxes due in certain foreign jurisdictions and \$0.1 million of foreign taxes withheld on royalty payments from non-U.S. customers.

In fiscal year 2002, we recorded an income tax benefit of \$10.4 million on a pre-tax loss of \$214.5 million. This benefit generated an effective income tax rate of 4.8 percent, which was lower than the U.S. statutory rate of 35 percent. The primary reasons our benefit was lower than the statutory rate were that we were not able to take advantage of the fiscal year 2002 net operating loss and there were expenses associated with the four acquisitions that closed during fiscal year 2002 that were not deductible for tax purposes. The effective tax rate was also affected by nonrecurring tax benefits totaling \$10.5 million recorded during that year, most of which pertained to the settlement of examinations by the Internal Revenue Service for fiscal years 1994 through 1997.

In fiscal year 2001, we recorded income tax expense of \$15.7 million on income before provision for income taxes of \$158.9 million. Our effective income tax rate of approximately 9.9 percent in that year was lower than the U.S. statutory rate of 35 percent, primarily because of the utilization of previously reserved net operating loss carryforwards and tax credits.

In fiscal years 2003, 2002, and 2001, we provided a valuation allowance equal to our net deferred tax assets due to uncertainties regarding whether these assets will be realized. We evaluate the realizability of the deferred tax assets on a quarterly basis. In order to recognize these assets, we must be able to determine that it is more likely than not that these assets will be realized.

### *Loss from Discontinued Operations*

During fiscal year 2001, we signed a definitive agreement with Creative Technology Ltd. ("Creative") and Vertex Technology Fund (II) Ltd. ("Vertex"), whereby the three companies made investments in eMicro Corporation ("eMicro"), a fabless joint manufacturing venture based in Singapore in which we have a 75 percent interest. We currently hold 12 million shares of preferred stock in this joint venture. There have been no dividends paid from this joint venture. Under the terms of the agreement, eMicro was a licensee of our proprietary circuits and a strategic supplier of audio CODECs and other mixed-signal chip solutions to Creative.

In April 2002, the eMicro Board of Directors recommended the dissolution of eMicro. In June 2002, the stockholders of eMicro voted to dissolve the joint venture, and it ceased operations during the first quarter of fiscal year 2003. eMicro recently resolved all issues relating to the valuation of its assets and liabilities, and therefore, we anticipate that eMicro will distribute the remaining funds owed its shareholders in the first quarter of fiscal year 2004.

Effective with the first fiscal quarter of 2003, we recorded eMicro's results of operations as discontinued and reclassified the prior years' results of operations to discontinued operations for comparative purposes in accordance with SFAS 144.

## **Outlook**

In general, our outlook for fiscal year 2004 is uncertain, and dependent in large part on the recovery of our industry as well as the overall economy.

We are focusing on building our leadership position in our high-margin audio and mixed-signal product lines. We believe that worldwide adoption of digital audio products, as replacements for outdated analog components, will allow us continued growth opportunities in our audio business. Our expertise in surround-sound audio presents new opportunities behind the traditional AVR market, as home theater-in-a-box solutions increase. In addition, we have numerous products that support new automotive audio applications,

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and have expanded our opportunities in commercial audio markets, which have accounted for a relatively small percentage of our revenue to date.

With respect to our video products, we anticipate rapid market growth for digital recorders. Our reference designs and product offerings enable manufacturers to produce DVD recorders and hard disk-based personal video recorders at attractive price points. We hope to increase the shipments of our power-efficient portable DVD solution for DVD players that we recently began shipping.

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

### Liquidity and Capital Resources

During fiscal year 2003, we used \$18.2 million in cash from operating activities, down from \$29.0 million in cash used during fiscal year 2002. In fiscal year 2001, we generated \$0.4 million in cash from operating activities. The cash used in operating activities in fiscal year 2003 was a result of the cash components of our net loss and the change in working capital partially offset by cash received from a lease settlement. The decline in working capital during fiscal year 2003 was primarily driven by the decrease in accounts receivable, as a result of improved collections and lower sales volume, partially offset by a reduction in accounts payable due to lower volume. The cash used in operating activities in fiscal year 2002 was a result of our net loss of \$206.1 million, substantially offset by decreases in accounts receivable and inventory of \$176.7 million. The cash generated by operating activities in fiscal year 2001 was primarily the result of operating profits offset by increases in accounts receivable and inventory of \$43.4 million and \$55.9 million, respectively.

We used \$12.4 million in cash from investing activities in fiscal year 2003. This use was primarily attributable to purchases of technology licenses and property and equipment of \$21.3 million, partially offset by the receipt of \$6.5 million for the LuxSonor escrow claim we made in fiscal year 2002, as well as a decrease in restricted cash of \$1.0 million. During the second quarter of fiscal year 2003, we moved to our new leased headquarters and engineering facility in Austin, Texas. In connection with the move, we incurred approximately \$11.6 million in capital expenditures. We have an obligation to lease additional space in a new building next to our current facility, should construction of this building begin before November 10, 2004. We used \$24.7 million in cash from investing activities in fiscal year 2002. This use was primarily the result of purchases of technology licenses and property and equipment of \$16.7 million, \$16.1 million from our four fiscal year 2002 acquisitions and an increase in restricted cash of \$2.8 million. These uses of cash were partially offset by \$11.0 million in cash proceeds from the sale of equity investments. We generated \$114.4 million in cash from investing activities in fiscal year 2001. During fiscal year 2001, we sold \$89.4 million of equity investments. In addition, the release of \$47.2 million of restricted cash due to reduced lease commitments provided additional funding in fiscal year 2001. These increases were partially offset by investments of \$22.9 million in new equipment and technology licenses.

During fiscal year 2003, we generated \$1.0 million in cash from financing activities primarily related to the receipt of \$1.6 million in cash from common stock issuances as a result of employee stock option exercises, partially offset by \$0.6 million in capital lease payments on leases we obtained as a result of our fiscal year 2002 acquisitions. Net cash used in financing activities was \$58.9 million and \$5.7 million in fiscal years 2002 and 2001, respectively. We used cash in financing activities in fiscal year 2002 primarily for the repurchase of 6.4 million shares of stock for \$68.7 million and payments on long-term debt and capital lease obligations of \$5.0 million. These uses were partially offset by \$14.7 million received for the issuance of common stock in connection with the exercise of stock options. We used cash in financing activities in fiscal year 2001 for the repurchase of convertible subordinated notes of \$25.8 million and payments on long-term debt and capital lease obligations of \$12.7 million. These uses of cash were partially offset in fiscal year 2001 by cash provided from employee stock option exercises of \$27.9 million and contributions from our minority partners in eMicro of \$5.0 million.

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As of March 29, 2003, we have restricted cash of \$11.8 million. Of this amount, we have a \$9 million letter of credit secured by \$9 million in restricted cash. The letter of credit was issued to secure certain obligations under our lease agreement for a new headquarters and engineering facility in Austin, Texas. In addition, as a result of the acquisition of Stream Machine, we have \$2.3 million in restricted cash securing a letter of credit related to Stream Machine's office lease. We expect this restricted cash to be converted to unrestricted cash by the second fiscal quarter of 2004 due to the end of this commitment. We also have \$0.5 million in restricted cash securing a writ of attachment related to ongoing litigation.

### Off-Balance Sheet Arrangements

The following table summarizes our contractual payment obligations and commitments as of March 29, 2003:

	Payment Due by Period				Total
	< 1 Year	1-3 Years	3-5 Years	> 5 Years	
			(In thousands)		
Facilities leases, net	\$ 9,373	\$16,528	\$13,389	\$25,990	\$65,280
Equipment leases	120	129	13	—	262
Wafer purchase commitments	5,454	—	—	—	5,454
Assembly purchase commitments	475	—	—	—	475
Total	\$15,422	\$16,657	\$13,402	\$25,990	\$71,471

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

### Recently Issued Accounting Pronouncements

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 148 ("SFAS 148"), "Accounting for Stock-Based Compensation." SFAS 148 amends FASB Statement No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS 148 is effective for fiscal years ending after December 15, 2002. Since we continue to use the intrinsic value method of accounting for stock-based employee compensation, the only impact that SFAS 148 has on our financial statements is the annual and quarterly disclosure requirements. The required annual disclosure is included in this Form 10-K. See Note 1 in the Notes to our Consolidated Financial Statements contained in "Item 8 — Financial Statements and Supplementary Data."

In April 2003, the FASB decided to require all companies to expense the value of employee stock options with cost measured according to the options' fair value using some form of a grant-date model. The FASB plans to issue an exposure draft later in calendar year 2003 that could become effective in calendar year 2004. The issuance of this accounting pronouncement could have a material effect on our results of operations and financial position.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. We

are currently evaluating the effect of this financial interpretation on our company. At this time, we do not believe that the adoption of FIN 46 will have a material impact on our results of operations.

### Critical Accounting Policies

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

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of the consolidated financial statements:

- We maintain allowances for doubtful accounts for estimated losses resulting from the inability or failure of our customers to make required payments. We constantly evaluate our allowance for doubtful accounts based upon the age of the receivable, our ongoing customer relations, as well as any disputes with the customer. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. This could have a material effect on our operating results and financial position. Additionally, we may maintain an allowance for doubtful accounts for estimated losses on receivables from customers with whom we are involved in litigation. We do have a reserve for our litigation involving Western Digital and Fujitsu. See Note 10 in the Notes to our Consolidated Financial Statements contained in “Item 8 — Financial Statements and Supplementary Data.”
- Inventories are recorded at the lower of cost or market, with cost being determined on a first-in, first-out basis. We write down inventories to net realizable value based on forecasted demand and the age of inventory. Actual demand and market conditions may be different from those projected by management. This could have a material effect on our operating results and financial position.
- We evaluate the recoverability of property and equipment and intangible assets, excluding goodwill, in accordance with SFAS 144. This standard requires recognition of impairment of long-lived assets in the event the carrying value of these assets exceeds the fair value of the applicable assets. Impairment evaluations involve management estimates of asset useful lives and future cash flows. Actual useful lives and cash flow could be different from those estimated by management. This could have a material effect on our operating results and financial position. Goodwill is evaluated annually based on the criteria established in SFAS 142. Application of the goodwill impairment test requires judgment as to the control premium and the fair value of assets and liabilities. Changes in these estimates and assumptions could materially affect the determination of the fair value assigned during testing. See Note 5 in the Notes to our Consolidated Financial Statements contained in “Item 8 — Financial Statements and Supplementary Data.”
- All restructuring charges for workforce reductions and facilities consolidation reflected in the accompanying financial statements were accrued based upon specific plans established by management, in accordance with EITF 94-3 or SFAS 146, depending upon the time of the restructuring activity. Our facilities consolidation accruals were based upon our estimates as to the length of time a facility would be vacant, as well as the amount of sublease income we would receive once we sublet the facility, after considering current and projected market conditions. Changes in these estimates could

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result in an adjustment to our restructuring accruals in a future quarter. This could have a material effect on our operating results and financial position.

- Our taxes payable balance is comprised primarily of tax contingencies that are recorded to address potential exposures involving tax positions we have taken that could be challenged by taxing authorities. These potential exposures result from the varying application of statutes, rules, regulations, and interpretations. Our tax contingencies are established based on past experiences and judgments about potential actions by taxing jurisdictions. The ultimate resolution of these matters may be materially greater or less than the amount that we have accrued.
- We are subject to the possibility of loss contingencies for various legal matters. See Note 10 in the Notes to our Consolidated Financial Statements contained in “Item 8 — Financial Statements and Supplementary Data.” We regularly evaluate current information available to us to determine whether any accruals should be made based on the status of the case, the results of the discovery process, and other factors. If we ultimately determine that an accrual should be made for a legal matter, this accrual could have a material effect on our operating results and financial position.

### **Item 7a. *Quantitative and Qualitative Disclosures about Market Risk***

We are exposed to market risks associated with interest rates on our debt investment securities, equity price risk on investment securities, and currency movements on non-U.S. dollar denominated assets and liabilities. We assess these risks on a regular basis and have established policies to protect against the adverse effects of these and other potential exposures. All of the potential changes noted below are based on sensitivity analyses at March 29, 2003. Actual results may differ materially.

#### **Interest Rate Risk**

At March 29, 2003, our cash, cash equivalents, and restricted cash included short-term, fixed rate securities. An immediate 10 percent change in interest rates would not have a material effect on either the fair value of our investments or our results of operations.

#### **Marketable Equity Securities Price Risk**

We are exposed to price risk on publicly traded equity investment securities. A 10 percent change in the value of the related securities would not have a material effect on our results of operations or financial position.

#### **Foreign Currency Exchange Risk**

Our revenue and spending is transacted primarily in U.S. dollars; however, in fiscal year 2003 we entered into minimal transactions in other currencies to fund the operating needs of our design, technical support, and sales offices outside of the U.S.

During fiscal year 2002, we entered into various foreign currencies forward contracts to mitigate the foreign exchange risk of certain yen-denominated net balance sheet accounts and sales. As of March 29, 2003, and March 30, 2002, we did not have any foreign exchange contracts outstanding.

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

**Item 8. *Financial Statements and Supplementary Data***

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**REPORT OF INDEPENDENT AUDITORS**

The Board of Directors and Stockholders  
Cirrus Logic, Inc.

We have audited the accompanying consolidated balance sheets of Cirrus Logic, Inc. as of March 29, 2003 and March 30, 2002, and the related consolidated statements of operations, stockholders' equity (net capital deficiency), and cash flows for each of the three fiscal years in the period ended March 29, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cirrus Logic, Inc. at March 29, 2003 and March 30, 2002, and the consolidated results of its operations and its cash flows for each of the three fiscal years in the period ended March 29, 2003, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the consolidated financial statements, effective March 31, 2002, the company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

/s/ ERNST & YOUNG LLP

Austin, Texas  
April 25, 2003,  
except for Note 18, as to which the date is  
June 3, 2003

## CIRRUS LOGIC, INC.

## CONSOLIDATED BALANCE SHEET

	March 29, 2003	March 30, 2002
(In thousands, except per share amounts)		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 110,964	\$ 140,529
Restricted cash	11,844	12,807
Marketable equity securities	543	2,258
Accounts receivable, net	22,712	42,158
Inventories	22,339	27,985
Prepaid expenses	7,473	14,205
Other current assets	820	3,991
	<hr/>	<hr/>
Total current assets	176,695	243,933
Property and equipment, net	35,321	36,549
Goodwill and intangibles, net	38,797	194,660
Other assets	6,453	6,488
	<hr/>	<hr/>
	\$ 257,266	\$ 481,630
	<hr/>	<hr/>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 10,270	\$ 35,465
Accrued salaries and benefits	9,764	10,873
Current maturities of long-term debt and capital lease obligations	—	566
Income taxes payable	37,820	42,178
Royalties payable	4,898	2,167
Other taxes payable	4,622	4,468
Other accrued liabilities	13,535	20,738
	<hr/>	<hr/>
Total current liabilities	80,909	116,455
Long-term debt and capital lease obligations	—	51
Deferred sublease income	5,095	—
Other long-term liabilities	7,735	5,883
Minority interest in eMicro	—	1,092
Stockholders' Equity:		
Series A Participating Preferred Stock, \$0.001 par value; 1,500 shares authorized, zero issued	—	—
Common stock, \$0.001 par value, 280,000 shares authorized, 83,761 shares and 82,979 shares issued and outstanding at March 29, 2003 and March 30, 2002, respectively	84	83
Additional paid-in capital	867,892	862,646
Accumulated deficit	(703,912)	(504,699)
Accumulated other comprehensive income (loss)	(537)	119
	<hr/>	<hr/>
Total stockholders' equity	163,527	358,149
	<hr/>	<hr/>
	\$ 257,266	\$ 481,630
	<hr/>	<hr/>

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

## CIRRUS LOGIC, INC.

## CONSOLIDATED STATEMENT OF OPERATIONS

Fiscal Years Ended

	March 29, 2003	March 30, 2002	March 31, 2001
	(In thousands, except per share amounts)		
Net sales	\$ 261,999	\$ 410,976	\$769,635
Costs and expenses:			
Cost of sales	129,757	314,227	478,872
Research and development	95,271	108,072	122,586
Selling, general and administrative	73,661	94,778	109,764
Restructuring costs and other, net	8,633	10,923	(14,362)
Acquired in-process research and development expenses and amortization of acquired intangibles	17,837	42,492	3,399
Impairment of goodwill and other intangibles	136,160	—	—
Lease termination costs	4,568	—	—
Provision (benefit) for doubtful accounts	—	73,074	(1,408)
Total costs and expenses	465,887	643,566	698,851
Income (loss) from operations	(203,888)	(232,590)	70,784
Realized gain on marketable equity securities	215	10,967	86,886
Interest expense	(166)	(239)	(11,760)
Interest income	2,633	8,330	17,964
Other expense, net	(373)	(919)	(4,928)
Income (loss) before income taxes and loss from discontinued operations	(201,579)	(214,451)	158,946
Provision (benefit) for income taxes	(3,818)	(10,370)	15,715
Income (loss) from continuing operations	(197,761)	(204,081)	143,231
Loss from discontinued operations	(1,452)	(1,998)	(830)
Income (loss) before extraordinary gain and accounting change	(199,213)	(206,079)	142,401
Extraordinary gain, net of income taxes of \$276	—	—	2,482
Cumulative effect of change in accounting principle	—	—	(1,707)
Net income (loss)	\$ (199,213)	\$ (206,079)	\$ 143,176
Basic earnings (loss) per share:			
From continuing operations	\$ (2.37)	\$ (2.63)	\$ 2.00
Discontinued operations	(0.02)	(0.03)	(0.01)
Extraordinary gain, net of income tax	—	—	0.03
Cumulative effect of change in accounting principle	—	—	(0.02)
	\$ (2.39)	\$ (2.66)	\$ 2.00
Diluted earnings (loss) per share:			
From continuing operations	\$ (2.37)	\$ (2.63)	\$ 1.86
Discontinued operations	(0.02)	(0.03)	(0.01)
Extraordinary gain, net of income tax	—	—	0.03
Cumulative effect of change in accounting principle	—	—	(0.02)
	\$ (2.39)	\$ (2.66)	\$ 1.86
Weighted average common shares outstanding:			
Basic	83,445	77,552	71,678
Diluted	83,445	77,552	82,654

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



## CIRRUS LOGIC, INC.

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Fiscal Years Ended		
	March 29, 2003	March 30, 2002	March 31, 2001
	(In thousands)		
Cash flows from operating activities:			
Net income (loss)	\$(199,213)	\$(206,079)	\$143,176
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Depreciation and amortization	40,048	35,408	29,127
Non-cash portion of restructuring charges	2,368	—	—
Loss on retirement or write-off of property and equipment	1,442	2,893	825
Write-off of investment in technology	—	—	1,500
Acquired in-process research and development expenses	—	31,310	—
Lease settlement, net of amortization	6,535	—	—
Gain on marketable equity securities, net	(215)	(10,967)	(86,886)
Compensation related to the issuance of certain employee stock options and restricted stock	3,614	1,686	347
Extraordinary gain, net of income tax	—	—	(2,482)
Impairment of goodwill and other intangibles	136,160	—	—
Minority interest in loss of eMicro	(493)	(611)	(297)
Changes in operating assets and liabilities:			
Accounts receivable, net	19,471	94,837	(43,397)
Inventories	5,646	81,891	(55,873)
Other assets	1,708	3,245	9,485
Accounts payable	(25,227)	(53,778)	(10,071)
Accrued salaries and benefits	(1,109)	(5,420)	2,941
Income taxes payable	(4,358)	1,125	12,830
Other accrued liabilities	(4,544)	(4,538)	(863)
Net cash (used in) provided by operating activities	(18,167)	(28,998)	362
Cash flows from investing activities:			
Proceeds from sale of equity investments	1,400	10,967	89,354
Additions to property and equipment	(15,407)	(8,589)	(18,461)
Investments in technology	(5,914)	(8,152)	(4,395)
Decrease in deposits and other assets	42	29	773
Acquisition of companies, net of cash acquired	6,490	(16,110)	—
Decrease (increase) in restricted cash	963	(2,807)	47,173
Net cash (used in) provided by investing activities	(12,426)	(24,662)	114,444
Cash flows from financing activities:			
Repurchase of convertible subordinated notes	—	—	(25,811)
Payments on long-term debt	—	(4,334)	(11,610)
Payments on capital lease obligations	(605)	(625)	(1,136)
Issuance of common stock, net of issuance costs	1,633	14,673	27,853
Repurchase and retirement of common stock	—	(68,661)	—
Cash contributions from minority partners	—	—	5,000
Net cash provided by (used in) financing activities	1,028	(58,947)	(5,704)
Net (decrease) increase in cash and cash equivalents	(29,565)	(112,607)	109,102
Cash and cash equivalents at beginning of year	140,529	253,136	144,034
Cash and cash equivalents at end of year	\$ 110,964	\$ 140,529	\$253,136
<b>Supplemental disclosures of cash flow information</b>			
Cash payments (refunds) during the year for:			
Interest	\$ 572	\$ 239	\$ 10,491
Income taxes	685	(10,544)	2,801

**Supplemental disclosures of non-cash investing and financing activities**

Issuance of common stock for acquisitions	\$	—	\$ 188,458	\$	—
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The accompanying notes are an integral part of these financial statements.

## CIRRUS LOGIC, INC.

**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
(NET CAPITAL DEFICIENCY)**

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
	(In thousands)					
Balance, March 25, 2000	63,306	\$ 63	\$367,952	\$(431,001)	\$ 47,284	\$ (15,702)
Components of comprehensive income (loss):						
Net income	—	—	—	143,176	—	143,176
Change in unrealized gain on marketable equity securities	—	—	—	—	(41,987)	(41,987)
Change in unrealized loss on foreign currency translation adjustments	—	—	—	—	(719)	(719)
Total comprehensive income	—	—	—	—	—	100,470
Issuance of stock under stock plans	2,835	4	27,849	—	—	27,853
Tax benefit of stock option exercises	—	—	11,970	—	—	11,970
Interest in cash contributed to eMicro by minority partners	—	—	3,000	—	—	3,000
Stock issued under the restructuring agreement with IBM	2,382	2	31,998	—	—	32,000
Conversion of convertible debt	11,181	11	272,594	—	—	272,605
Compensation related to the issuance of certain employee options	—	—	347	—	—	347
Balance, March 31, 2001	79,704	80	715,710	(287,825)	4,578	432,543
Components of comprehensive income (loss):						
Net loss	—	—	—	(206,079)	—	(206,079)
Change in unrealized gain on marketable equity securities	—	—	—	—	(4,324)	(4,324)
Change in unrealized loss on foreign currency translation adjustments	—	—	—	—	(135)	(135)
Total comprehensive loss	—	—	—	—	—	(210,538)
Retirement of treasury shares	(6,444)	(6)	(57,860)	(10,795)	—	(68,661)
Issuance of stock under stock plans	1,468	1	14,660	—	—	14,661
Issuance of stock related to acquisitions	8,251	8	188,450	—	—	188,458
Amortization of deferred stock compensation	—	—	1,686	—	—	1,686
Balance, March 30, 2002	82,979	83	862,646	(504,699)	119	358,149
Components of comprehensive income (loss):						
Net loss	—	—	—	(199,213)	—	(199,213)
Change in unrealized loss on marketable equity securities	—	—	—	—	(2,411)	(2,411)
Reclassification adjustment for other than temporary losses on marketable equity securities	—	—	—	—	1,184	1,184
Change in unrealized loss on foreign currency translation adjustments	—	—	—	—	571	571
Total comprehensive loss	—	—	—	—	—	(199,869)
Issuance of stock under stock plans	612	1	1,632	—	—	1,633
Issuance of shares previously held back from prior year acquisitions	170	—	—	—	—	—
Amortization of deferred stock compensation	—	—	3,614	—	—	3,614
Balance, March 29, 2003	83,761	\$ 84	\$867,892	\$(703,912)	\$ (537)	\$ 163,527

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

CIRRUS LOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Summary of Significant Accounting Policies

*Description of Business*

Cirrus Logic (“we,” “us,” “our,” or the “Company”) is a leader in digital audio, video, and high-performance mixed-signal integrated circuits (“ICs”) for consumer entertainment, automotive entertainment, and industrial applications. We develop and market integrated ICs and embedded software used by original equipment manufacturers. We also provide complete system reference designs based on our technology that enable our customers to bring products to market in a timely and cost-effective manner.

We were founded in 1984 and were reincorporated in the state of Delaware in February 1999. With headquarters in Austin, Texas and major sites in Fremont, California and Broomfield, Colorado, we also serve customers from international offices in Asia, including the People’s Republic of China and Japan, and Europe. Our common stock, which has been publicly traded since 1989, is listed on the NASDAQ National Market under the symbol CRUS.

*Basis of Presentation*

We prepare financial statements on a 52- or 53-week year that ends on the last Saturday in March. Fiscal years 2003 and 2002 included 52 weeks, whereas fiscal year 2001 included 53 weeks.

*Principles of Consolidation*

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

*Use of Estimates*

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

*Reclassifications*

Certain reclassifications have been made to conform to the fiscal year 2003 presentation. These reclassifications had no effect on the results of operations or stockholders’ equity, other than as disclosed in Note 6.

*Cash, Cash Equivalents and Restricted Cash*

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

*Marketable Equity Securities*

We determine the appropriate classification of marketable equity securities at the time of purchase as held-to-maturity, trading, or available-for-sale in accordance with Statement of Financial Accounting Standards No. 115 (“SFAS 115”), “Accounting for Certain Investments in Debt and Equity Securities.” We reevaluate such designation as of each balance sheet date. As of March 29, 2003 and March 30, 2002, all marketable securities were classified as available-for-sale securities.

## CIRRUS LOGIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Available-for-sale securities, which include investments in marketable equity securities, are carried at fair value, with unrealized gains and losses included as a component of stockholders' equity and accumulated other comprehensive income (loss). Realized gains and losses, declines in value judged to be other than temporary, and interest on available-for-sale securities are included in net income. The aggregate fair value of our available-for-sale equity securities was \$0.5 million as of March 29, 2003, with \$0.3 million in unrealized gain on marketable equity securities included as a component of stockholders' equity and accumulated other comprehensive income (loss). As of March 30, 2002, the aggregate fair value of our available-for-sale equity securities was \$2.3 million and we had an unrealized gain on marketable equity securities of \$1.5 million.

*Inventories*

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

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

Inventories were comprised of the following (in thousands):

	March 29, 2003	March 30, 2002
Work-in process	\$16,966	\$23,400
Finished goods	5,373	4,585
<b>Inventories</b>	<b>\$22,339</b>	<b>\$27,985</b>

*Property and Equipment, Net*

Property and equipment is recorded at cost, net of depreciation and amortization. Depreciation and amortization is calculated on a straight-line basis over estimated economic lives, ranging from three to ten years, or over the life of the lease for equipment under capitalized leases, if shorter. Leasehold improvements are depreciated over the shorter of the term of the lease or the estimated useful life. Gains or losses related to retirements or dispositions of fixed assets are recognized in the period incurred.

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

	March 29, 2003	March 30, 2002
Furniture and fixtures	\$ 15,550	\$ 13,304
Leasehold improvements	22,562	20,893
Machinery and equipment	170,205	177,032
Capitalized software	63,854	64,259
<b>Total property and equipment</b>	<b>272,171</b>	<b>275,488</b>
Less: Accumulated depreciation and amortization	(236,850)	(238,939)
<b>Property and equipment, net</b>	<b>\$ 35,321</b>	<b>\$ 36,549</b>

## CIRRUS LOGIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Depreciation and amortization expense on property and equipment for fiscal years 2003, 2002, and 2001 was \$14.9 million, \$18.5 million, and \$24.3 million, respectively.

*Goodwill and Intangible Assets*

In June 2001, the Financial Accounting Standards Board (“FASB”) issued SFAS 141, “*Business Combinations*,” and SFAS 142, “*Goodwill and Other Intangible Assets*.” SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS 141 also defines the criteria for recognizing and reporting intangible assets acquired in a business combination as assets apart from goodwill. In acquisitions accounted for using the purchase method of accounting, goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the net tangible and intangible assets acquired. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are tested annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life) and tested for impairment in accordance with SFAS 144. We applied the provisions of SFAS 142 to goodwill and intangible assets from business combinations initiated after June 30, 2001 and did not amortize in fiscal year 2002 goodwill totaling \$122.9 million from our three acquisitions that closed after June 30, 2001. During fiscal year 2002, we continued to amortize goodwill and assembled workforce from the two acquisitions that we closed before July 1, 2001, which totaled \$2.7 million, based on a weighted-average useful life of 3.9 years. We recorded amortization expense of \$1.0 million and \$0.2 million for goodwill and assembled workforce during fiscal years 2002 and 2001, respectively. We adopted the remaining provisions of SFAS 142 on March 31, 2002, the first day of fiscal year 2003, and transferred to goodwill \$0.7 million, which was the net book value of acquired assembled workforce intangibles, as these assets did not meet the criteria for recognition apart from goodwill. Additionally, we ceased amortizing goodwill (including assembled workforce) associated with acquisitions made before July 1, 2001. We performed both our required transitional goodwill impairment test as well as our annual goodwill impairment test during fiscal year 2003. See Note 5 for information regarding goodwill impairment testing.

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

Goodwill and intangible assets, net are comprised of the following (in thousands):

	March 29, 2003	March 30, 2002
Goodwill	\$ —	\$125,605
Acquired intangibles	60,333	79,028
Technology licenses	13,145	14,451
Total goodwill and intangible assets	73,478	219,084
Less: Accumulated amortization	(34,681)	(24,424)
Goodwill and intangible assets, net	\$ 38,797	\$194,660

Amortization expense for intangible assets for fiscal years 2003, 2002, and 2001 was \$25.1 million, \$16.8 million, and \$4.8 million, respectively.

CIRRUS LOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

*Long-Lived Assets*

In accordance with SFAS 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” we recognize impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets’ carrying amounts. We measure any impairment loss by comparing the fair value of the asset to its carrying amount. We estimate fair value based on discounted future cash flows, quoted market prices, or independent appraisals. We adopted SFAS 144 effective March 31, 2002. During fiscal year 2003, we performed an impairment analysis of certain existing acquired intangible assets as discussed more fully in Note 5.

*Foreign Currency Translation*

Local currency financial statements of international subsidiaries that have the U.S. dollar as the functional currency are remeasured into U.S. dollars using current rates of exchange for assets and liabilities. Gains and losses from remeasurement are included in other income (expense). Our subsidiaries that do not have the U.S. dollar as their functional currency translate assets and liabilities at current rates of exchange in effect at the balance sheet date; equity balances are translated at historical rates of exchange. The resulting gains and losses from translation are included as a component of stockholders’ equity. Revenue and expenses from our international subsidiaries are translated using the monthly average exchange rates in effect for the period in which the items occur.

*Foreign Exchange Contracts*

Effective April 1, 2001, we adopted SFAS 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended, which establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS 133 requires that we recognize all derivatives as either assets or liabilities in our consolidated balance sheet and measure those instruments at fair value.

We may enter into foreign currency forward exchange and option contracts to hedge certain foreign currency transaction exposures. Our accounting policies for some of these instruments are based on our designation of these instruments as hedging transactions. Instruments not designated as a hedge transaction are “marked-to-market” at the end of each accounting period. The criteria we use for designating an instrument as a hedge include effectiveness in exposure reduction and one-to-one matching of the derivative financial instrument to the underlying transaction being hedged. Gains and losses on foreign currency exchange and option contracts that are designated and effective as hedges of existing transaction are recognized in income in the same period as losses and gains on the underlying transactions are recognized and generally offset. Gains and losses on foreign currency option contracts that are designated and effective as hedges of transactions, for which a firm commitment has been attained, are deferred and recognized in income in the same period that the underlying transactions are settled.

During fiscal year 2003, we did not enter into any foreign currency hedging contracts. During fiscal year 2002 and 2001, we entered into various foreign currencies forward contracts to mitigate the foreign exchange risk of certain yen-denominated net balance sheet accounts and sales. As of March 30, 2002, we did not have any foreign exchange contracts outstanding.

Transaction gains and losses were not material in fiscal years 2003 and 2002. We realized transaction gains on yen option contracts of \$0.4 million in fiscal year 2001.

*Credit Risk Concentration*

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash equivalents, foreign currency exchange contracts, and trade accounts receivable. We are exposed to credit risk to the extent of the amounts recorded on the balance sheet. By policy, we place our cash equivalents and

CIRRUS LOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

foreign currency exchange contracts only with high, credit-quality financial institutions and, other than U.S. Government Treasury instruments, limit the amounts invested in any one institution or in any type of instrument.

In evaluating our trade receivables, we perform credit evaluations of our customers' financial condition, limit our exposure to accounting losses by limiting the amount of credit extended whenever deemed necessary and utilize letters of credit where appropriate and available. However, we generally do not require collateral from our customers. We sell a significant amount of products in the Pacific Rim and Japan. Our exposure to risk with Asian customers has been largely mitigated using letters of credit and cash prepayments.

*Revenue Recognition*

Revenue from product sold directly to customers and to international distributors is recognized upon title passage of inventory. For sales made directly to domestic customers, title generally passes upon shipment. For sales made directly to international customers and to international distributors, title generally passes at the port of destination. Sales made to domestic distributors are recorded as deferred revenue until the final sale to the end customer has occurred as the distributor agreements allow certain rights of return, price adjustments, and price protection. License and royalty revenue is recognized as it is earned per unit shipped or when a milestone is reached.

Effective with the first quarter of fiscal year 2001, we changed our revenue recognition policy in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin No. 101 ("SAB 101"), "*Revenue Recognition in Financial Statements*," resulting in a change in the basis for recognizing revenue on all shipments from date of shipment to date of passage of title. The cumulative effect of the change on prior years' accumulated deficit resulted in a charge to fiscal year 2001 income of \$1.7 million.

*Shipping Costs*

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

*Advertising Costs*

Advertising costs are expensed as incurred. Advertising costs were \$1.9 million, \$3.2 million, and \$2.3 million, in fiscal years 2003, 2002, and 2001, respectively.

*Stock-Based Compensation*

We apply the intrinsic value method in accounting for our stock option and stock purchase plans in accordance with Accounting Principles Board Opinion No. 25 ("APB 25"), "*Accounting for Stock Issued to Employees*." Accordingly, no compensation cost has been recognized for options granted with an exercise price equal to market value at the date of grant or in connection with the employee stock purchase plan. In December 2002, the FASB issued SFAS 148, "*Accounting for Stock-Based Compensation — Transition and Disclosure*," which currently affects us only with regard to quarterly and annual reporting of the pro forma effect on net income and earnings per share of applying the fair value method to measure compensation expense as required under SFAS 123, "*Accounting for Stock-Based Compensation*."

## CIRRUS LOGIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table details the disclosure required by SFAS 148 (in thousands, except per share amounts):

	March 29, 2003	March 30, 2002	March 31, 2001
Net income (loss) as reported	\$(199,213)	\$(206,079)	\$143,176
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	3,614	1,686	347
Deduct: Total stock based employee compensation expense determined under fair value based method for all awards, net of tax related effects	(16,083)	(40,817)	(46,383)
Pro forma net income (loss)	\$(211,682)	\$(245,210)	\$ 97,140
Basic earnings per share as reported	\$ (2.39)	\$ (2.66)	\$ 2.00
Pro forma basic earnings per share	(2.54)	(3.16)	1.36
Diluted earnings per share as reported	\$ (2.39)	\$ (2.66)	\$ 1.86
Pro forma diluted earnings per share	(2.54)	(3.16)	1.30

*Income Taxes*

We account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes," which provides for the recognition of deferred tax assets if realization of such assets is more likely than not. A valuation allowance is established, as needed, to reduce net deferred tax assets to the amount for which recovery is probable. In addition, we accrue for tax contingencies generated by potential exposures that may exist in the various taxing jurisdictions in which we operate throughout the world.

*Earnings (Loss) Per Share*

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

## CIRRUS LOGIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table sets forth the computation of basic and diluted earnings (loss) per share for the last three fiscal years (in thousands, except per share amounts):

	Fiscal Years Ended		
	March 29, 2003	March 30, 2002	March 31, 2001
Income (loss) from continuing operations	\$(197,761)	\$(204,081)	\$143,231
Loss from discontinued operations	(1,452)	(1,998)	(830)
Income (loss) before extraordinary gain and accounting change	(199,213)	(206,079)	142,401
Extraordinary gain, net of income taxes of \$276	—	—	2,482
Cumulative effect of change in accounting principle	—	—	(1,707)
Net income (loss)	(199,213)	(206,079)	143,176
Effect of convertible subordinated notes	—	—	10,806
Net income (loss) including assumed conversion of subordinated notes	\$(199,213)	\$(206,079)	\$153,982
Weighted average shares outstanding:			
Basic	83,445	77,552	71,678
Assumed conversion of convertible subordinated notes	—	—	6,410
Dilutive effect of stock options outstanding	—	—	4,566
Diluted	83,445	77,552	82,654
Basic earnings (loss) per share:			
From continuing operations	\$ (2.37)	\$ (2.63)	\$ 2.00
Discontinued operations	(0.02)	(0.03)	(0.01)
Extraordinary gain	—	—	0.03
Cumulative effect of change in accounting principle	—	—	(0.02)
Basic earnings (loss) per share	\$ (2.39)	\$ (2.66)	\$ 2.00
Diluted earnings (loss) per share:			
From continuing operations	\$ (2.37)	\$ (2.63)	\$ 1.86
Discontinued operations	(0.02)	(0.03)	(0.01)
Extraordinary gain	—	—	0.03
Cumulative effect of change in accounting principle	—	—	(0.02)
Diluted earnings (loss) per share	\$ (2.39)	\$ (2.66)	\$ 1.86

Incremental weighted average common shares attributable to the assumed exercise of outstanding options of 538,000 and 2,759,000 shares as of March 29, 2003 and March 30, 2002, respectively, were excluded from the computation of diluted earnings (loss) per share because the effect would be antidilutive. Included in diluted earnings (loss) per share calculation for fiscal year 2001 was an adjustment to increase net income by \$10.8 million and diluted shares by 6,410,000, which was the after-tax interest savings and shares that were issuable in connection with the convertible debt, respectively.

CIRRUS LOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

*Accumulated Other Comprehensive Income*

We report our accumulated other comprehensive income based upon SFAS 130, “*Reporting Comprehensive Income.*” Our accumulated other comprehensive income is comprised of foreign currency translation adjustments and unrealized gains and losses on investments classified as available-for-sale.

*Recently Issued Accounting Pronouncements*

In December 2002, the FASB issued SFAS 148, “*Accounting for Stock-Based Compensation.*” SFAS 148 amends SFAS 123, “*Accounting for Stock-Based Compensation,*” to provide alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS 148 is effective for fiscal years ending after December 15, 2002. Since we continue to use the intrinsic value method of accounting for stock-based employee compensation, the only impact that SFAS 148 has on our financial statements pertains to the annual and quarterly disclosure requirements. The required annual disclosures are included in Note 1 of this Form 10-K.

In January 2003, the FASB issued FASB Interpretation No. 46 (“FIN 46”), “*Consolidation of Variable Interest Entities.*” FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. We are currently evaluating the effect of this financial interpretation on our company. At this time, we do not believe that the adoption of FIN 46 will have a material impact on our results of operations.

**2. Financial Instruments**

We used the following assumptions to estimate our fair value disclosures for financial instruments:

*Cash and cash equivalents:* The carrying amount reported in the balance sheet for cash and cash equivalents is a reasonable estimate of its fair value.

*Marketable equity securities:* The fair values for marketable equity securities are based on quoted market prices. Any variation between the cost of the instrument and the quoted market price is included in the unrealized gain/loss on marketable equity securities in the equity section of the balance sheet.

*Foreign currency exchange and option contracts:* We estimate the fair values of our foreign currency exchange forward and option contracts based on quoted market prices of comparable contracts, adjusted through one-to-one matching of the derivative financial instrument to the underlying transaction being hedged.

*Long-term debt:* We estimate the fair value of long-term debt based on estimated current market rates for debt instruments with similar terms and remaining maturities.

## CIRRUS LOGIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 3. Accounts Receivable

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

	March 29, 2003	March 30, 2002
Gross accounts receivable	\$23,689	\$44,123
Less: Allowance for doubtful accounts	(977)	(1,965)
Accounts receivable, net	\$22,712	\$42,158

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

Balance, March 25, 2000	\$ (3,870)
Release charged to costs and expenses	1,408
Write-off of uncollectible accounts, net of recoveries	262
Balance, March 31, 2001	(2,200)
Additions charged to costs and expenses	(73,074)
Write-off of uncollectible accounts, net of recoveries	7
Transfer of allowance to long-term receivables	73,302
Balance, March 30, 2002	(1,965)
Write-off of uncollectible accounts, net of recoveries	988
Balance, March 29, 2003	\$ (977)

During the fourth quarter of fiscal year 2002, we recorded a \$73.3 million charge to reserve disputed receivables associated with the ongoing litigation with Fujitsu and Western Digital. If we are successful in collecting these receivables through the ongoing litigation, we will record an equivalent reduction in operating expenses. These receivables and the related allowances were reclassified from short term to long term as of March 30, 2002 to reflect our expectation regarding the timing of cash collection. See Note 10 for further discussion regarding the ongoing litigation with Fujitsu and Western Digital.

## 4. Acquisitions

*Peak Audio, Inc.* On April 30, 2001, we completed the acquisition of the assets of Peak Audio, Inc. (“Peak”), a Colorado-based company specializing in commercial audio networking products. The results of Peak’s operations have been included in our consolidated financial statements since that date. The aggregate purchase price for Peak was \$9.8 million, consisting primarily of cash, as well as the fair value of options issued and direct acquisition costs.

As part of the acquisition, the shareholders of Peak potentially could have received up to an additional \$16 million in consideration based upon the financial performance of the purchased assets over a two-year period. Peak did not meet the required financial milestones in either fiscal year of the two-year period and no payments were made.

*ShareWave, Inc.* On October 2, 2001, we acquired 100 percent of the outstanding stock of ShareWave, Inc. (“ShareWave”). The results of ShareWave’s operations have been included in our consolidated financial statements since that date. The aggregate purchase price for this acquisition was \$76.6 million, consisting primarily of the fair value of the 2.8 million common shares issued, as well as cash paid to dissenting shareholders, the fair value of options issued, direct acquisition costs and cash paid for fractional shares. Approximately 435,000 shares of the 2.8 million common shares issued were placed into escrow to cover

CIRRUS LOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

representations and warranties made by ShareWave in the merger agreement. The escrow agreement terminated in December 2002 and all shares were distributed to the former shareholders of ShareWave.

*LuxSonor Semiconductors, Inc.* On October 10, 2001, we acquired 100 percent of the outstanding stock of LuxSonor Semiconductors, Inc. (“LuxSonor”). The results of LuxSonor’s operations have been included in our consolidated financial statements since that date. We acquired LuxSonor for a purchase price of \$51.3 million, consisting primarily of the fair value of the 1.8 million common shares issued, as well as cash, the fair value of options issued, and direct acquisition costs. In connection with the acquisition, we placed \$9.75 million into escrow to cover representations and warranties made by LuxSonor in the merger agreement. Only \$3.2 million of the escrow was included in the purchase price as we recovered \$6.5 million because LuxSonor failed to have a working capital balance of at least \$1.0 million as of the merger closing date. During fiscal year 2003, we recovered a total of \$8.9 million of this escrow. On April 9, 2003, we filed our last escrow claim for approximately \$760,000, comprised of (i) certain penalties and fees we assumed in connection with the acquisition, (ii) an uncollectible accounts receivable, (iii) unreported accounts payable, and (iv) patent infringement issues. The escrow agreement terminated in April 2003 except for our open claim.

*Stream Machine Company.* On December 7, 2001, we acquired 100 percent of the outstanding stock of Stream Machine Company (“Stream Machine”). The results of Stream Machine’s operations have been included in our consolidated financial statements since that date. The aggregate purchase price for this acquisition was \$72.1 million, consisting primarily of the fair value of the 3.6 million common shares issued and the fair value of the 958,000 options issued, as well as direct acquisition costs, and cash paid for fractional shares. Approximately 740,000 shares were placed into an escrow account to cover representations and warranties, as well as certain revenue commitments, made by Stream Machine in the merger agreement. Given the uncertainty around the ultimate issuance of the shares placed in escrow due to Stream Machine’s revenue commitments, they were not included in determining the estimated aggregate purchase price nor were they considered to be outstanding for purposes of share count and calculation of weighted average shares outstanding. The escrow agreement terminated in March 2003 and we recovered all the escrow shares due to Stream Machine’s failure to meet its revenue commitments.

**5. Goodwill and Acquired Intangibles**

Effective March 31, 2002, we performed a transitional impairment test on all net goodwill totaling \$124.6 million. Our transitional impairment test did not indicate that our goodwill had been impaired; as a result, no impairment charge was recorded.

We performed our first annual goodwill impairment test in accordance with SFAS 142 in the fourth quarter of fiscal year 2003. We performed step one of the two-step process to determine the fair value of Cirrus Logic at the consolidated level because we are a single reporting unit. The step one analysis of our fair market value was based on our market capitalization as of the first day of the second month of our fourth fiscal quarter, adjusted for an assumed control premium. The step one analysis indicated that our carrying value exceeded our fair value, so we were required to perform step two of the impairment test. Step two involved allocating the fair value of Cirrus Logic at the consolidated level to all of our assets and liabilities, with the excess of total fair value over the fair value allocated to our net assets representing the implied fair value of goodwill. We engaged an independent valuation consultant to assist us in determining the fair value of our assets and liabilities. As a result of our impairment test, we impaired all of our goodwill, recording a non-cash charge of \$126.0 million as a component of impairment of goodwill and other intangibles.

## CIRRUS LOGIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table shows the pro forma income statement information as if the non-amortization provisions of SFAS 142 were effective in those fiscal years:

	Fiscal Years Ended		
	March 29, 2003	March 30, 2002	March 31, 2001
Income (loss) before extraordinary gain and accounting change	\$(199,213)	\$(206,079)	\$142,401
Goodwill and workforce amortization	—	989	200
Adjusted net income (loss)	\$(199,213)	\$(205,090)	\$142,601
Basic income (loss) per share, as reported	\$ (2.39)	\$ (2.66)	\$ 1.99
Goodwill and workforce amortization	—	0.01	—
Adjusted basic earnings (loss) per share	\$ (2.39)	\$ (2.65)	\$ 1.99
Diluted earnings (loss) per share, as reported	\$ (2.39)	\$ (2.66)	\$ 1.85
Goodwill and workforce amortization	—	0.01	—
Adjusted basic earnings (loss) per share	\$ (2.39)	\$ (2.65)	\$ 1.85
Basic weighted average common shares outstanding	83,445	77,552	71,678
Diluted weighted average common shares outstanding	83,445	77,552	82,654

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

	Fiscal Years Ended			
	March 29, 2003		March 30, 2002	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Amortized acquired intangible assets:				
Core Technology	\$ 8,290	\$ (6,163)	\$ 11,690	\$ (1,126)
Covenant not to compete	—	—	1,900	(1,583)
Customer Agreements	—	—	8,200	(586)
Existing Technology	49,783	(21,772)	49,883	(9,070)
License Agreements	1,940	(656)	6,040	(2,795)
Other Agreements	—	—	95	(48)
Trademarks	320	(153)	1,220	(788)
	\$60,333	\$(25,344)	\$ 79,028	\$(15,996)
Unamortized acquired intangible assets:				
Goodwill	\$ —	\$ —	\$125,605	\$ (989)

As part of our restructuring activities during the fourth quarter of fiscal year 2003, we closed our wireless product line, acquired in October 2001 in connection with our acquisition of ShareWave, and the associated El Dorado Hills, California office. As a result, we recorded a \$9.7 million charge in fiscal year 2003 for the entire net book value of the related acquired intangible assets, primarily core technology/patents and one customer agreement. This charge was recorded as a component of impairment of goodwill and other intangibles. The customer agreement terminated during the fourth quarter of fiscal year 2003 and, therefore, had no future value. We are no longer using the technology and associated patents. We were unsuccessful in our efforts to

## CIRRUS LOGIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

market the technology and associated patents and, therefore, determined their fair value to be zero. As a result of our analysis, we fully impaired the associated acquired intangible assets.

Due to customer contract negotiations during the fourth quarter of fiscal year 2003, we also reviewed the acquired intangibles pertaining to customer agreements from our fiscal year 2000 acquisition of AudioLogic, Inc. for potential impairment. As a result, we recorded a \$0.5 million charge in fiscal year 2003 for the entire net book value of the customer agreements acquired intangible. This charge was recorded as a component of impairment of goodwill and other intangibles.

Amortization expense for all acquired intangibles in fiscal years 2003, 2002, and 2001 was \$17.8 million and \$11.2 million, and \$3.4 million, respectively. The following table details the estimated aggregate amortization expense for all acquired intangibles for each of the 5 succeeding fiscal years (in thousands):

For the year ended March 27, 2004	\$14,394
For the year ended March 26, 2005	13,676
For the year ended March 25, 2006	6,043
For the year ended March 31, 2007	248
For the year ended March 29, 2008	203

## 6. Discontinued Operations — eMicro Joint Venture

During fiscal year 2001, we signed a definitive agreement with Creative Technology Ltd. (“Creative”) and Vertex Technology Fund (II) Ltd. (“Vertex”), whereby the three companies made investments in eMicro Corporation (“eMicro”), a fabless joint manufacturing venture based in Singapore in which we have a 75 percent interest. We currently hold 12 million shares of preferred stock in this joint venture. There have been no dividends paid from this joint venture. Under the terms of the agreement, eMicro was a licensee of our proprietary circuits and a strategic supplier of audio CODECs and other mixed-signal chip solutions to Creative.

In April 2002, the eMicro Board of Directors recommended the dissolution of eMicro. In June 2002, the stockholders of eMicro voted to dissolve the joint venture, and it ceased operations during the first quarter of fiscal year 2003. eMicro recently resolved all issues relating to the valuation of its assets and liabilities, and, therefore, we anticipate that eMicro will distribute the remaining funds owed to its shareholders in the first quarter of fiscal year 2004.

We currently consolidate the accounts of eMicro in our financial statements at 100 percent and have recorded an offset for the 25 percent outside ownership interest as an accrued liability on our balance sheet at March 29, 2003. The following amounts for eMicro were included in our consolidated balance sheet as of March 29, 2003 and March 30, 2002 and represent less than 1 percent and 1 percent, respectively of our consolidated total assets:

	March 29, 2003	March 30, 2002
Cash and cash equivalents	\$2,291	\$ 3,334
Accounts receivable	—	769
Inventory	—	35
Other current assets	2	202
Long-term assets	—	1,058
Accounts payable and accrued liabilities	(226)	(1,353)
Accrued liability payable to minority stockholders	(587)	—
Minority interest	—	1,092

## CIRRUS LOGIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Effective with the first fiscal quarter of 2003, we recorded eMicro's results of operations as discontinued and reclassified the prior years' results of operations to discontinued operations for comparative purposes in accordance with SFAS 144. eMicro's revenue and operating loss included in discontinued operations for fiscal year 2003 were \$0.9 million and \$2.0 million, respectively for fiscal year 2002 were \$6.6 million and \$2.6 million, respectively, and for fiscal year 2001 were \$9.0 million and \$1.1 million, respectively.

### 7. Long-Term Debt and Capital Lease Obligations

We had no debt or capital lease obligations as of March 29, 2003. We had \$0.6 million in total capital lease obligations as of March 30, 2002, of which \$0.1 million was classified as long-term.

### 8. Bank Arrangements

As of March 29, 2003, we have restricted cash of \$11.8 million. Of this amount, we have a \$9 million letter of credit secured by \$9 million in restricted cash. The letter of credit was issued to secure certain obligations under our lease agreement for a new headquarters and engineering facility in Austin, Texas. In addition, as a result of the acquisition of Stream Machine, we have \$2.3 million in restricted cash securing a letter of credit related to Stream Machine's office lease. We expect this restricted cash to be converted to unrestricted cash by the second quarter of fiscal year 2004 due to the end of this lease commitment. We also have \$0.5 million in restricted cash securing a writ of attachment related to ongoing litigation.

### 9. Commitments and Contingencies

#### *Facilities and Equipment Under Operating Lease Agreements*

We lease our facilities and certain equipment under operating lease agreements, some of which have renewal options. Certain of these arrangements provide for lease payment increases based upon future fair market rates. Our principal facilities, located in Austin, Texas, consisted of approximately 254,000 square feet of leased office and test space, which have leases that expire from 2003 to 2012, excluding renewal options. This space is used for product development and testing, sales, marketing, and administration. It includes our new headquarters and engineering facility that we moved into in fiscal year 2003, which has 197,000 square feet. In connection with this move, we vacated approximately 157,000 square feet of leased office space in Austin, Texas. We have an obligation to lease additional space in a new building next to our current facility, should construction of this building begin before November 10, 2004.

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

	Facilities	Subleases	Net Facilities Commitments	Equipment Commitments	Total Commitments
2004	\$14,750	\$ 5,377	\$ 9,373	\$120	\$ 9,493
2005	13,785	4,777	9,008	81	9,089
2006	12,406	4,886	7,520	48	7,568
2007	10,304	3,470	6,834	10	6,844
2008	8,787	2,232	6,555	3	6,558
Thereafter	27,747	1,757	25,990	—	25,990
Total minimum lease payments	<u>\$87,779</u>	<u>\$22,499</u>	<u>\$65,280</u>	<u>\$262</u>	<u>\$65,542</u>

Total rent expense was approximately \$13.6 million, \$11.7 million, and \$10.4 million, for fiscal years 2003, 2002, and 2001, respectively. Sublease rental income was \$6.3 million, \$6.4 million, and \$5.6 million, for fiscal years 2003, 2002, and 2001, respectively. The sublease commitment information shown above for future

## CIRRUS LOGIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

years does not include the \$7.4 million settlement we received in fiscal year 2003 when one of our California tenants exited their subleases for approximately 145,000 square feet. This amount will be amortized on a straight-line basis as a reduction in operating expenses over the remaining lease periods.

*Wafer, Assembly, and Test Purchase Commitments*

We rely on third-party wafer fabricators for our wafer manufacturing needs. As of March 29, 2003, we had agreements with multiple foundries for the manufacture of wafers. None of these agreements has volume purchase commitments or “take or pay” clauses. The agreements provide for purchase commitments based on purchase orders. Cancellation fees or other charges may apply and are generally dependent upon whether wafers have been started or the stage of the manufacturing process at which the notice of cancellation is given. As of March 29, 2003, we had foundry commitments of \$5.5 million.

During fiscal year 2001, we had firm commitments to purchase wafers from third-party suppliers. When our firm wafer purchase commitments exceeded our wafer needs, we accrued losses on firm wafer purchase commitments in excess of estimated wafer needs over the short term (six months) to the extent they would result in inventory losses were we to fulfill the commitment and take delivery of the inventory. The following table summarizes our accrued wafer purchase commitments (in thousands):

Balance, March 25, 2000	\$ 676
Additions charged to costs and expenses	—
Payments/deductions	(676)
	—
Balance, March 31, 2001, March 30, 2002, and March 29, 2003	\$ —

In addition to our wafer supply arrangements, we currently contract with third-party assembly vendors to package the wafer die into finished products. Assembly vendors provide fixed-cost-per-unit pricing, as is common in the semiconductor industry. We had non-cancelable assembly purchase orders with numerous vendors totaling \$0.5 million at March 29, 2003.

We primarily perform our test services in-house, but may contract with outside test vendors when appropriate. Test vendors provide fixed-cost-per-unit pricing, as is common in the semiconductor industry. Our total commitment for outside test services as of March 29, 2003 was minimal.

**10. Legal Matters***Fujitsu*

On October 19, 2001, we filed a lawsuit against Fujitsu, Ltd. in the United States District Court for the Northern District of California. We are alleging claims for breach of contract and anticipatory breach of contract, and seek damages in excess of \$46 million. The basis for our complaint is Fujitsu’s refusal to pay for chips delivered to and accepted by it. On December 17, 2001, Fujitsu filed an answer and a counterclaim. Fujitsu alleges claims for breach of contract, breach of warranty, quantum meruit/equitable indemnity, and declaratory relief. The basis for the claims is our sale of allegedly defective chips to Fujitsu, which chips allegedly caused Fujitsu’s hard disk drives to fail. The counterclaim does not specify the damages Fujitsu seeks, other than to allege it has sustained “tens of millions” of dollars in damages. Our claim is based on chips that are not included in Fujitsu’s counterclaim but for which Fujitsu has not paid. To facilitate the resolution of all claims in one lawsuit, including our claims against potentially responsible third parties, we and Fujitsu agreed to realign our claims with Fujitsu as the plaintiff and us as the defendant and counterclaimant. This realignment allowed us to file in the same lawsuit a third-party claim alleging breach of contract and warranty against Amkor Technology, Inc., the company that recommended and sold us the goods that allegedly caused Fujitsu’s hard disk drives to fail. Amkor filed an answer to our third-party claim and a third-

CIRRUS LOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

party complaint for implied contractual indemnity against Sumitomo Bakelite Co., Ltd., the company that sold the allegedly defective goods to Amkor. The trial is scheduled for July 2004. At this time, we are unable to assess the potential outcome of this litigation. We intend to defend and prosecute our lawsuit vigorously. Further, we believe that any potential liability in connection with Fujitsu's counterclaim is covered by insurance coverage and claims we have against third parties.

*Western Digital*

On July 5, 2001, Western Digital Corporation and its Malaysian subsidiary, Western Digital (M) SDN.BHD, filed a lawsuit against us in the Superior Court of the State of California, Orange County, in connection with the purchase of "read channel" chips from us, as explained in more detail below. On August 20, 2001, we filed a cross-complaint against the plaintiffs, and on October 9, 2001, the Court granted our motion for judgment on the pleadings that resulted in the dismissal of the plaintiffs' entire original complaint.

The plaintiffs filed an amended complaint, in which they alleged that they entered into an oral supply contract for "read channel" chips with us, and that we breached the contract and our duty of good faith and fair dealing. This amended complaint seeks, among other things, unspecified damages, which appear to be in excess of \$60 million, and declaratory relief. We filed a cross-complaint against the plaintiffs, alleging causes of action for breach of contract, fraud and negligent misrepresentation. We are seeking damages in excess of \$53 million, as well as punitive damages. The plaintiffs currently owe us amounts exceeding \$53 million for products we have shipped and for non-cancelable orders placed with us.

On December 24, 2001, the trial court granted our application for writs of attachment against the plaintiffs in the amount of approximately \$25 million. The plaintiffs appealed the order, and the court of appeals recently affirmed the decision of the trial court. Pursuant to an agreement we entered into, the plaintiffs have delivered to us a letter of credit in the amount of approximately \$25 million in substitution for an attachment of their property. We will have the right to draw under the letter of credit in the event we prevail in the litigation.

On December 31, 2002, the court granted our motion for summary adjudication of five of the seven causes of action in the plaintiffs' first amended complaint. On April 25, 2003, the court granted the plaintiffs leave to file a second amended complaint. The trial is scheduled for December 2003. We intend to collect all amounts owed to us. We have not accrued for any amount we may be ordered to pay the plaintiffs because we do not believe this outcome is probable. If an adverse judgment were to occur, the amount cannot be quantified at this time.

*LuxSonor*

On January 8, 2003, we prevailed in the arbitration proceeding with the former shareholders of LuxSonor regarding claims we made against the escrow account. This escrow account was set up to compensate us in the event of certain breaches of warranties and covenants by LuxSonor made in the Agreement of Merger and in the event that LuxSonor failed to have a working capital balance of at least \$1.0 million as of the merger closing date. We were awarded \$6.9 million, including \$0.4 million in attorneys' fees and interest, of our \$7.8 million claim.

On January 21, 2003, we filed a second claim against the LuxSonor escrow account for \$2.1 million in connection with certain patent infringement issues for which we paid \$2.1 million during fiscal year 2003. We settled this claim and received approximately \$2.0 million on February 24, 2003. We recorded this \$2.0 million as a component of "Other Expense, net" on the income statement as an offset to the expense associated with the related patent infringement settlement.

## CIRRUS LOGIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

On April 9, 2003, we filed our last claim for approximately \$760,000, comprised of (i) certain penalties and fees we assumed in connection with the acquisition, (ii) an uncollectible accounts receivable, (iii) unreported accounts payable, and (iv) patent infringement issues.

*Other Claims*

From time to time, various claims, charges, and litigation are asserted or commenced against us arising from, or related to, contractual matters, intellectual property, employment disputes, as well as other issues. Frequent claims and litigation involving these types of issues are not uncommon in the semiconductor industry. As to any of these claims or litigation, we cannot predict the ultimate outcome with certainty. In the event a third party makes a valid intellectual property claim and a license is not available on commercially reasonable terms, we would be forced either to redesign or to stop production of products incorporating that intellectual property, and our operating results could be materially and adversely affected. Litigation may also be necessary to enforce our intellectual property rights or to defend us against claims of infringement, and this litigation may be costly and divert the attention of key personnel.

**11. Restructuring Costs and Other**

During fiscal year 2003, we eliminated approximately 290 employee positions worldwide, or approximately 25 percent of the total workforce, from various business functions and job classes as a continuation of our fiscal year 2002 effort to further reduce costs and align operating expenses with our current revenue model. In fiscal year 2003, we recorded a restructuring charge of \$3.8 million in operating expenses for costs associated with these workforce reductions, a non-cash charge of \$2.5 million to fully expense certain intangible, fixed, and other assets that will no longer be used as a result of our workforce reductions, and \$0.8 million related to facility consolidations. As part of these restructuring activities, we closed our wireless product line, acquired in October 2001 in connection with our acquisition of ShareWave, and the associated El Dorado Hills, California office. We have decided to focus our on-going investment on higher margin analog components and solutions for digital entertainment applications that utilize our audio and video technologies.

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

	Severance	Facilities Abandonment	Total
Balance March 30, 2002	\$ —	\$ —	\$ —
Fiscal year 2003 provision	3,808	753	4,561
Amounts utilized	(3,667)	(249)	(3,916)
Balance, March 29, 2003	\$ 141	504	\$ 645

During fiscal year 2002, we announced a change to our business strategy, exited the magnetic storage chip business, and focused on consumer-entertainment electronics. As a result of these strategic decisions and in response to ongoing economic and industry conditions, we eliminated approximately 420 employee positions worldwide from various business functions and job classes over the course of fiscal year 2002. We recorded a restructuring charge of \$6.4 million in operating expenses to cover costs associated with these workforce reductions. In addition, we recorded a \$4.5 million restructuring charge in operating expenses for costs associated with facility consolidations. In fiscal year 2003, we recorded a net additional charge of \$1.5 million related primarily to a reduction in the sublease assumptions for a facility we initially restructured during fiscal year 2002, mainly due to the depressed real estate market in that area.

## CIRRUS LOGIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table sets forth the activity in our fiscal year 2002 restructuring accrual during fiscal years 2002 and 2003 (in thousands):

	Severance	Facilities Abandonment	Total
Balance March 31, 2001	\$ —	\$ —	\$ —
Fiscal year 2002 provision	6,449	4,474	10,923
Amounts utilized	(6,297)	(485)	(6,782)
Balance March 30, 2002	152	3,989	4,141
Fiscal year 2003 provision	35	1,550	1,585
Amounts utilized	(187)	(1,438)	(1,625)
Balance, March 29, 2003	\$ —	\$ 4,101	\$ 4,101

The following table sets forth the activity in our fiscal 1999 restructuring accrual during fiscal year 2001. There was no activity for this restructuring accrual in fiscal years 2002 and 2003 (in thousands):

	Severance	Facilities Abandonment	Total
Balance March 25, 2000	\$ —	\$ 6,779	\$ 6,779
Fiscal year 2001 provision	—	—	—
Amounts utilized	—	(3,617)	(3,617)
Adjustments	—	(2,670)	(2,670)
Balance, March 31, 2001, March 30, 2002, and March 29, 2003	\$ —	\$ 492	\$ 492

During fiscal year 2001, we recorded \$12.5 million in income to recognize the receipt of two previously restructured notes from Intel Corporation on behalf of Basis Communications Corporation. We also recorded \$1.8 million in income due to the final resolution of the MiCRUS restructuring agreement.

As of March 29, 2003, we had a remaining restructuring accrual for all of our past restructurings of \$5.2 million, primarily related to net lease expenses that will be paid over their respective lease terms through fiscal year 2013, along with other anticipated lease termination costs. We have classified \$3.4 million of this restructuring accrual as long term.

## 12. Employee Benefit Plans

We have a 401(k) Profit Sharing Plan (the "Plan") covering substantially all of our qualifying domestic employees. Under the Plan, employees may elect to contribute up to 20 percent of their annual compensation, subject to annual IRS limitations. Under the Plan, we match 50 percent of the first 6 percent of the employees' annual contribution to the plan. During fiscal years 2003, 2002, and 2001, we made matching employee contributions for a total of approximately \$1.5 million, \$1.6 million, and \$0.3 million, respectively. We expect to continue the contributions in fiscal year 2004. In fiscal year 2001, we changed our 401(k) plan with respect to vesting, forfeitures, and company match. As a result, we had a one-time credit to expense to true-up old plan balances.

CIRRUS LOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

13. Stockholders' Equity

*Employee Stock Purchase Plan*

In March 1989, we adopted the 1989 Employee Stock Purchase Plan (the "ESPP"). As of March 29, 2003, 549,000 shares of common stock were reserved for future issuance under this plan. During fiscal years 2003, 2002, and 2001, we issued 400,000, 235,000, and 249,000 shares, respectively, under the ESPP.

*Preferred Stock*

We have not issued any of the authorized 1.5 million shares of Series A Participating Preferred Stock.

*Stock Option Plans*

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

We did not issue any restricted stock in fiscal years 2003 or 2002. In fiscal year 2001, we issued 32,000 shares of restricted stock to certain employees at no cost that vest over four years. The non-vested portion of these shares has been excluded from earnings per share number in accordance with SFAS 128, "Earnings per Share." We recognize the excess of the grant date fair market value over the exercise price as compensation expense ratably over the vesting period. The weighted average fair value of shares granted in fiscal year 2001 was \$32.56. We recorded compensation expense of \$260,000 in fiscal year 2003, \$348,000 in fiscal year 2002 and \$347,000 in fiscal year 2001 relating to restricted stock issuances.

## CIRRUS LOGIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	Options Available for Grant	Outstanding Options	
		Number	Weighted Average Exercise Price
Balance, March 25, 2000	3,217	8,551	\$ 9.29
Shares authorized for issuance	3,500	—	—
Options granted	(6,743)	6,743	26.38
Options exercised	—	(2,519)	9.26
Options cancelled	1,695	(1,695)	16.00
Options expired	—	(52)	—
Balance, March 31, 2001	1,669	11,028	18.68
Shares authorized for issuance	5,115	—	—
Options granted	(7,210)	7,210	14.45
Options exercised	—	(1,215)	10.07
Options cancelled	2,580	(2,580)	21.37
Options expired	—	(138)	—
Balance, March 30, 2002	2,154	14,305	16.20
Shares authorized for issuance	6,000	—	—
Options granted	(1,981)	1,981	5.06
Options exercised	—	(266)	2.06
Options cancelled	6,996	(6,996)	17.13
Options expired	—	(184)	—
Balance, March 29, 2003	13,169	8,840	\$13.21

As of March 29, 2003, approximately 22.0 million shares of common stock were reserved for issuance under the Option Plans.

## CIRRUS LOGIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes information concerning currently outstanding and exercisable options:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
	(In thousands)			(In thousands)	
\$ 0.19 - \$ 2.60	932	8.81	\$ 2.24	194	\$ 1.63
\$ 2.73 - \$ 5.55	954	9.00	4.04	83	4.36
\$ 5.56 - \$ 8.38	951	5.40	7.19	785	7.17
\$ 8.63 - \$ 9.50	1,182	5.02	9.18	1,093	9.20
\$10.00 - \$13.40	444	7.10	12.02	307	11.71
\$13.56 - \$14.33	912	8.74	14.31	182	14.26
\$14.35 - \$15.30	963	8.15	15.20	338	15.03
\$15.36 - \$16.80	907	7.71	16.39	568	16.57
\$17.15 - \$31.75	552	7.95	19.14	246	19.19
\$32.56 - \$44.50	1,043	7.44	33.26	491	33.72
	8,840	7.46	\$13.21	4,287	\$13.66

As of March 30, 2002 and March 31, 2001, the number of options exercisable was 4.3 million and 2.5 million, respectively.

*Stock-Based Compensation*

If we had recorded compensation cost for our stock option plans based upon the Black-Scholes fair value at the grant date for awards under the Option Plans consistent with the optional methodology prescribed under SFAS 123, "Accounting for Stock-Based Compensation," the net income (loss) and earnings per share would have been as shown below (in thousands, except per share data):

	March 29, 2003	March 30, 2002	March 31, 2001
Net income (loss) as reported	\$(199,213)	\$(206,079)	\$143,176
Pro forma net income (loss)	(211,682)	(245,210)	97,140
Basic earnings per share as reported	(2.39)	(2.66)	2.00
Pro forma basic earnings per share	(2.54)	(3.16)	1.36
Diluted earnings per share as reported	(2.39)	(2.66)	1.86
Pro forma diluted earnings per share	(2.54)	(3.16)	1.30

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

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because our options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of its options. The effects on pro forma disclosure of applying SFAS 123 for prior years are not likely to be representative of the effects on pro forma disclosures for future years.

## CIRRUS LOGIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

We estimated the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model using a dividend yield of 0 percent and the following additional weighted-average assumptions:

	March 29, 2003	March 30, 2002	March 31, 2001
Employee Option Plans:			
Expected stock price volatility	92.12%	83.41%	76.26%
Risk-free interest rate	2.8%	5.0%	6.0%
Expected lives (in years)	5.3	4.3	5.3
Employee Stock Purchase Plan:			
Expected stock price volatility	92.12%	83.41%	76.26%
Risk-free interest rate	1.1%	4.5%	5.7%
Expected lives (in years)	0.5	0.5	0.5

During fiscal years 2003, 2002, and 2001, all options were granted at an exercise price equal to the closing market price on the grant date. Using the Black-Scholes option valuation model, the weighted average estimated fair values of employee stock options granted in fiscal years 2003, 2002, and 2001 were \$4.07, \$7.59, and \$20.90, respectively. The weighted average estimated fair values for purchase rights granted under the ESPP for fiscal years 2003, 2002, and 2001 were \$3.40, \$6.71, and \$5.90, respectively.

#### *Stock Option Exchange*

During fiscal year 2003, we completed a stock option exchange program offered to all eligible option holders. Under the exchange offer, eligible employees had the opportunity to tender for cancellation certain stock options in exchange for new options to be granted at least six months and one day after the cancellation of the tendered options. Each eligible participant will receive a new option to purchase 0.75 share of common stock for each option to purchase one share of common stock canceled. Members of the Board of Directors and executive officers were not eligible to participate in the exchange program. We accepted approximately 3.4 million options for exchange and currently expect to grant approximately 2.3 million new options, taking into consideration employee terminations since the cancellation date. The exercise price per share of the new options will be equal to the fair market value of our common stock on the new grant date, which is expected to be June 23, 2003. We do not expect to record any compensation expense as a result of the exchange program.

#### *Rights Plan*

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

#### *Stock Repurchase*

On April 11, 2001, we repurchased approximately 6.4 million shares of our common stock from a former member of the Board of Directors for approximately \$68.7 million. The shares were subsequently retired with

## CIRRUS LOGIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

\$57.9 million charged to common stock and additional paid-in capital and \$10.8 million charged to accumulated deficit.

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

Our accumulated other comprehensive income (loss) is comprised of foreign currency translation adjustments and unrealized gains and losses on investments classified as available-for-sale. The foreign currency translation adjustments are not currently adjusted for income taxes because they relate to indefinite investments in non-U.S. subsidiaries. Additionally, there were no income taxes provided for the unrealized gains and losses due to the recording of a full valuation allowance against net deferred tax assets.

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

	Foreign Currency	Unrealized Gains (Losses) on Securities	Total
Balance, March 25, 2000	\$ (536)	\$ 47,820	\$ 47,284
Current-period activity	(719)	(41,987)	(42,706)
Balance, March 31, 2001	(1,255)	5,833	4,578
Current-period activity	(135)	(4,324)	(4,459)
Balance, March 30, 2002	(1,390)	1,509	119
Current-period activity	571	(1,227)	(656)
Balance, March 29, 2003	\$ (819)	\$ 282	\$ (537)

**15. Income Taxes**

Income (loss) before income taxes and loss from discontinued operations consisted of (in thousands):

	March 29, 2003	March 30, 2002	March 31, 2001
United States	\$(202,480)	\$(214,345)	\$176,507
Foreign	901	(106)	(17,561)
	\$(201,579)	\$(214,451)	\$158,946

The provision (benefit) for income taxes consisted of (in thousands):

	March 29, 2003	March 30, 2002	March 31, 2001
Current			
Federal	\$ (545)	\$(10,440)	\$12,092
State	(3,990)	—	2,880
Foreign	717	70	743
	\$(3,818)	\$(10,370)	\$15,715

## CIRRUS LOGIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes the differences between the U.S. federal statutory rate and our effective tax rate (in percentages):

	March 29, 2003	March 30, 2002	March 31, 2001
US federal statutory rate	(35.0)	(35.0)	35.0
Provision for state income taxes, net of federal effect	—	—	1.2
Nondeductible SFAS 142 goodwill impairment charges	21.6	—	—
In-process research and development expenses	—	5.1	—
Net operating loss and future deductions not currently benefited	13.5	29.8	—
Benefit of net operating losses and deferred tax assets not previously recognized	—	—	(33.9)
Tax settlements and refunds	(2.2)	(4.9)	—
Unbenefited foreign losses	0.1	0.2	7.6
Other	0.1	—	—
Effective tax provision rate	(1.9)	(4.8)	9.9

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

	March 29, 2003	March 30, 2002
Deferred tax assets:		
Inventory valuation	\$ 18,573	\$ 21,579
Accrued expenses and allowances	42,220	38,602
Net operating loss carryforwards	54,953	43,615
Research and development tax credit carryforwards	29,720	34,431
State investment tax credit carryforwards	5,752	4,026
Capitalized research and development	31,859	37,638
Deferred royalty income	—	25,900
Other	2,232	2,333
Total deferred tax assets	185,309	\$ 208,124
Valuation allowance for deferred tax assets	(174,444)	(182,112)
Net deferred tax assets	10,865	26,012
Deferred tax liabilities:		
Unrealized gains	104	558
Depreciation and amortization	10,223	23,344
Other	538	2,110
Total deferred tax liabilities	10,865	26,012
Total net deferred tax assets	\$ —	\$ —

SFAS 109, "Accounting for Income Taxes," provides for the recognition of deferred tax assets if realization of such assets is more likely than not. We have provided a valuation allowance equal to our net deferred tax assets due to uncertainties regarding their realization. We evaluate the realizability of our deferred tax assets on a quarterly basis.

## CIRRUS LOGIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The valuation allowance decreased by \$7.7 million in fiscal year 2003 and increased by \$120.4 million in fiscal year 2002. During fiscal year 2003, we recorded nonrecurring tax benefits totaling \$4.5 million. These benefits were comprised of a \$4.0 million reversal of prior-year state tax liabilities and \$0.5 million for a Federal income tax refund. The reversal of the prior-year state tax liabilities was due to the favorable resolution of a state tax audit, while the Federal income tax refund came about as the result of a change in the U.S. tax law that allowed our fiscal year 2002 net operating loss to be carried back to fiscal year 1998. At March 29, 2003, we had federal net operating loss carryforwards of \$148.5 million. Of this amount, \$49.3 million relates to companies we acquired during fiscal year 2002 and are, therefore, subject to certain limitations under Section 382 of the Internal Revenue Code. In addition, approximately \$11.4 million of the federal net operating loss carryforwards is attributable to employee stock option deductions, the benefit from which will be allocated to additional paid-in capital rather than current earnings if subsequently realized. The net operating loss carryforwards expire in fiscal years 2011 through 2023. As of March 29, 2003, we had federal research and development tax credit carryforwards of \$19.2 million that expire in fiscal years 2006 through 2023. We also had state tax credit carryforwards as of March 29, 2003 of approximately \$16.2 million, \$5.7 million of which expire in fiscal years 2004 through 2008. The remaining \$10.5 million of state tax credit carryforwards are not subject to expiration.

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

The Internal Revenue Service is currently examining our U.S. Federal Income tax returns for fiscal years 1998, 1999, 2000 and 2001. We do not believe that the outcome of the examination will have a material adverse effect on our financial position or results of operations.

**16. Segment Information**

We are a leader in digital audio, video, and high-performance mixed-signal ICs for consumer entertainment, automotive entertainment, and industrial applications. We develop and market integrated ICs and embedded software used by original equipment manufacturers. We also provide complete system reference designs based on our technology that enable our customers to bring products to market in a timely and cost-effective manner. We determine our operating segments in accordance with SFAS 131, "*Disclosures about Segments of an Enterprise and Related Information*." Our chief executive office ("CEO") has been identified as the chief operating decision maker as defined by SFAS 131.

During fiscal year 2001, we had three principal product groups, which were considered to be operating segments: Analog Products Business Group, Internet Solutions Business Group and the Magnetic Storage Business Group. The remaining product lines, which had either been discontinued or subsequently sold, were grouped as End of Life. We reported net revenue and operating profit for those three business segments during fiscal year 2001.

During the first quarter of fiscal year 2002, we announced our intention to focus on consumer entertainment electronics and de-emphasize our magnetic storage business. During the second quarter, we exited the magnetic storage chip business entirely. Additionally, we reduced our workforce by approximately 420 employee positions worldwide to align company resources and expense with our new strategy as well as in response to ongoing economic and industry conditions. See Note 11 for further discussion regarding our restructuring activities. During the third quarter of fiscal year 2002, we completed the acquisitions of ShareWave, LuxSonor and Stream Machine. See Note 4 for further discussion regarding these acquisitions.

## CIRRUS LOGIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

As a result of the changes discussed above, our CEO receives and uses enterprise-wide financial information to assess financial performance and allocate resources rather than information at a product group level. Additionally, our product groups have similar characteristics and customers. They share operations support functions such as sales, public relations, production, and logistics in addition to the general and administrative functions of human resources, legal, finance, and information technology. Accordingly, effective with the fourth quarter of fiscal year 2002, we operate in one operating segment — Consumer Entertainment Electronics. Our segment disclosure for the last three fiscal years as shown below was prepared on a consistent basis.

Information on reportable segments for fiscal years 2003, 2002, and 2001 was as follows (in thousands):

Business Segment Net Revenues:	Fiscal Years Ended		
	March 29, 2003	March 30, 2002	March 31, 2001
Consumer Entertainment Electronics	\$261,999	\$281,561	\$440,158
Magnetic Storage	—	129,415	329,477
<b>Total</b>	<b>\$261,999</b>	<b>\$410,976</b>	<b>\$769,635</b>

  

Business Segment Operating Profit (Loss):	Fiscal Years Ended		
	March 29, 2003	March 30, 2002	March 31, 2001
Consumer Entertainment Electronics	\$(195,255)	\$(133,410)	\$ 22,845
Magnetic Storage	—	(88,257)	33,577
<b>Total</b>	<b>(195,255)</b>	<b>(221,667)</b>	<b>56,422</b>
Restructuring costs and other, net	(8,633)	(10,923)	14,362
Interest income, net	2,467	8,091	6,204
Other income (expense), net	(158)	10,048	81,958
<b>Income (loss) before income taxes and loss from discontinued operations</b>	<b>\$(201,579)</b>	<b>\$(214,451)</b>	<b>\$158,946</b>

*Geographic Area*

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

	Fiscal Years Ended		
	March 29, 2003	March 30, 2002	March 31, 2001
United States	\$ 60,939	\$ 61,341	\$138,534
Pacific Rim	162,641	208,973	277,069
Japan	14,494	111,529	300,158
Other foreign countries	23,925	29,133	53,874
<b>Total consolidated revenues</b>	<b>\$261,999</b>	<b>\$410,976</b>	<b>\$769,635</b>

## CIRRUS LOGIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	March 29, 2003	March 30, 2002
United States	\$33,927	\$33,988
Singapore	4	1,052
Pacific Rim (including Japan)	1,317	1,458
Other foreign countries	73	51
<b>Total consolidated property and equipment, net</b>	<b>\$35,321</b>	<b>\$36,549</b>

*Significant Customers*

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

	March 29, 2003	March 30, 2002	March 31, 2001
Fujitsu	—	21%	25%
Thomson Multimedia	12%	15%	—
Western Digital	—	—	13%

No other customers accounted for 10 percent or more of net sales in fiscal years 2003, 2002, or 2001. The loss of a significant customer or a significant reduction in such a customer's orders could have an adverse effect on our sales. As a result of our exit from the mass storage business in the second quarter of fiscal year 2002, we are not currently selling magnetic storage products to Fujitsu or Western Digital. Our sales to Thomson Multimedia primarily consisted of DVD drive manager devices that are included in Microsoft's Xbox®. These game console sales were made under a volume purchase agreement, which delivery terms have been fulfilled.

The following table summarizes receivables from customers that represent more than 10 percent of consolidated gross short-term accounts receivable:

	March 29, 2003	March 30, 2002
Thomson Multimedia	23%	46%
Insight Electronics	17%	—

**17. Quarterly Results (Unaudited)**

The following quarterly results have been derived from our unaudited consolidated financial statements. In the opinion of management, this unaudited information has been prepared on the same basis as the annual consolidated financial statements and includes all adjustments, including normal recurring adjustments, necessary for a fair presentation of this quarterly information. This information should be read in conjunction with the financial statements and related notes. The amounts for fiscal year 2002 have been reclassified to conform to the fiscal year 2003 presentation, specifically the reclassification of the results of operations of eMicro to discontinued operations. Earnings per share were not affected by this reclassification. The operating results for any quarter are not necessarily indicative of results to be expected for any future period. The

## CIRRUS LOGIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

unaudited quarterly statement of operations data for each quarter of fiscal years 2003 and 2002 were as follows (in thousands, except per share data):

	Fiscal Year 2003			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Net sales	\$ 52,145	\$ 60,516	\$ 73,314	\$ 76,024
Gross margin	26,367	31,155	36,087	38,633
Income (loss) before extraordinary items and accounting change	(152,802)	(12,213)	(18,359)	(15,839)
Net income (loss)	(152,802)	(12,213)	(18,359)	(15,839)
Basic earnings before extraordinary items and accounting change per share	\$ (1.82)	\$ (0.15)	\$ (0.22)	\$ (0.19)
Diluted earnings before extraordinary items and accounting change per share	(1.82)	(0.15)	(0.22)	(0.19)
	Fiscal Year 2002			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Net sales	\$ 82,769	\$ 73,254	\$ 75,870	\$179,083
Gross margin	40,355	5,369	30,355	20,670
Income (loss) before extraordinary items and accounting change	(80,795)	(85,367)	(16,920)	(22,997)
Net income (loss)	(80,795)	(85,367)	(16,920)	(22,997)
Basic earnings before extraordinary items and accounting change per share	\$ (0.98)	\$ (1.08)	\$ (0.23)	\$ (0.31)
Diluted earnings before extraordinary items and accounting change per share	(0.98)	(1.08)	(0.23)	(0.31)

**18. Subsequent Event**

On June 3, 2003, we were notified that the Inland Revenue Authority of Singapore disagreed with our classification of sales to certain customers from May 1997 to March 1998, resulting in additional goods and services taxes owed by us. In the event we do not prevail, we could owe approximately \$5 million, plus interest and penalties. We plan to contest this claim and, if necessary, to pursue reimbursement from these customers. We are unable at this time to make a determination regarding the outcome of this matter.

**Item 9. *Changes in and Disagreements With Accountants on Accounting and Financial Disclosure***

None.

**PART III**

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

The information set forth in the Proxy Statement to be delivered to stockholders in connection with our Annual Meeting of Stockholders to be held on July 31, 2003 under the headings “Board Structure and Compensation,” “Proposal 1: Election of Directors,” “Executive Officers,” and “Section 16(a) Beneficial Ownership Reporting Compliance” is incorporated herein by reference.

**Item 11. *Executive Compensation***

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

**Item 12. *Security Ownership of Certain Beneficial Owners and Management***

The information set forth in the Proxy Statement under the heading “Proposal 2: Approval of an Amendment to the Cirrus Logic 1989 Employee Stock Purchase Plan” and “Stock Ownership,” is incorporated herein by reference.

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

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

**Item 14. *Controls and Procedures***

- (a) We maintain disclosure controls and procedures that are intended to ensure that the information required to be disclosed in our Securities Exchange Act of 1934 (the “Exchange Act”) filings is properly and timely recorded and reported. We have formed a Disclosure Control Committee comprised of key individuals from several disciplines in the Company that are involved in the disclosure and reporting process. This committee meets periodically to ensure the timeliness, accuracy and completeness of the information required to be disclosed in our filings. The committee also meets with the Chief Financial Officer to review the required disclosures and the effectiveness of the design and operation of our disclosure controls and procedures.
- (b) Within the 90-day period prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of our management, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-14 of the Exchange Act. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission and applicable rules.
- (c) There have been no significant changes in our internal controls or in other factors, which could significantly affect internal controls subsequent to the date we carried out our evaluation.
- (d) In designing and evaluating our disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met due to numerous factors, ranging from errors to conscious acts of an individual, or individuals acting together. In addition, the design of a control system must reflect the fact that there are resource

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constraints, and the benefits of controls must be considered relative to their costs. Because of inherent limitations in a cost-effective control system, misstatements due to error and/or fraud may occur and not be detected.

### PART IV

#### Item 15. *Principal Accountant Fees and Services*

The information set forth in the Proxy Statement under the heading “Proposal No. 3: Ratification of Independent Auditors” is incorporated herein by reference.

#### Item 16. *Exhibits, Financial Statement Schedules and Reports on Form 8-K*

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

##### 1. *Consolidated Financial Statements*

- Report of Ernst & Young LLP, Independent Auditors.
- Consolidated Balance Sheet as of March 29, 2003 and March 30, 2002.
- Consolidated Statement of Operations for the fiscal years ended March 29, 2003, March 30, 2002, and March 31, 2001.
- Consolidated Statement of Cash Flows for the fiscal years ended March 29, 2003, March 30, 2002, and March 31, 2001.
- Consolidated Statement of Stockholders’ Equity (Net Capital Deficiency) for the fiscal years ended March 29, 2003, March 30, 2002, and March 31, 2001.
- Notes to Consolidated Financial Statements

##### 2. *Financial Statement Schedules*

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

##### 3. *Exhibits*

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

- 2.1 Agreement of Merger, dated July 18, 2001, by and among Registrant, Target Acquisition Corporation (a wholly owned subsidiary of Registrant), LuxSonor Semiconductors, Inc. and Shareholders’ Representative.(1)
- 2.2 Agreement of Merger dated July 18, 2001, by and among Registrant, Target I Acquisition Corporation (a wholly owned subsidiary of Registrant), ShareWave, Inc. and Shareholders’ Representative.(1)
- 2.3 Agreement and Plan of Reorganization dated August 9, 2001, by and among Registrant, Cirrus Logic SM Acquisition Corporation (a wholly owned subsidiary of Registrant), Stream Machine Company and Shareholders’ Agent.(1)
- 3.1 Certificate of Incorporation of Registrant, filed with the Delaware Secretary of State on August 26, 1998.(2)
- 3.2 Agreement and Plan of Merger, filed with the Delaware Secretary of State on February 17, 1999.(2)
- 3.3 Certificate of Designation of Rights, Preferences and Privileges of Series A Preferred Stock, filed with the Delaware Secretary of State on March 30, 1999.(2)
- 3.4\* Amended and Restated Bylaws of Registrant.

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10.1†	Amended 1987 Stock Option Plan.(3)
10.2†	1989 Employee Stock Purchase Plan, as amended.(4)
10.3†	1990 Directors' Stock Option Plan, as amended.(4)
10.4†	1996 Stock Plan, as amended.(4)
10.5†	Peak Audio 2001 Stock Plan, assumed by Registrant.(5)
10.6†	ShareWave, Inc. 1996 Flexible Stock Incentive Plan, assumed by Registrant.(6)
10.7†	LuxSonor Semiconductors, Inc. 1995 Stock Option Plan, dated November 4, 1995, assumed by Registrant.(7)
10.8†	Stream Machine Company 1996 Stock Plan and 2001 Stock Plan, assumed by Registrant.(8)
10.9†*	2002 Stock Option Plan, as amended.
10.10	Form of Indemnification Agreement.(2)
10.11†	Employment Agreement by and between Registrant and David D. French dated February 7, 2002.(9)
10.12†	Executive Incentive Plan.(9)
10.13	Lease between TPLP Office and Registrant, dated April 1, 2000 for 54,385 square feet located at 4210 S. Industrial Drive Austin, Texas.(2)
10.14	Lease between ProLogis Trust and Registrant, dated March 31, 1995 for 176,000 square feet located at 4129 Commercial Center Drive and 4209 S. Industrial Austin, Texas, as amended through December 20, 1996.(2)
10.15	Lease between American Industrial Properties and Registrant, dated September 15, 1999 for 18,056 square feet located at 4120 Commercial Drive Austin, Texas.(2)
10.16	Lease Agreement by and between Desta Five Partnership, Ltd. and Registrant, dated November 10, 2000 for 197,000 square feet located at 2901 Via Fortuna, Austin, Texas.(2)
10.17	Amendment No. 1 to Lease Agreement by and between Desta Five Partnership, Ltd. and Registrant dated November 10, 2001.(9)
10.18*	Amendment No. 2 to Lease Agreement by and between Desta Five Partnership, Ltd. and Registrant dated November 10, 2000.
11	Statement re computation of per share earnings.
12	Statements re computation of ratios.
14*	Code of Conduct.
21.1*	Subsidiaries of the Registrant.
23.1*	Consent of Ernst & Young LLP, Independent Auditors.
24.1*	Power of Attorney (see signature page).
99.1*	Certification of Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2*	Certification of Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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† Indicates a management contract or compensatory plan or arrangement.

\* Filed with this Form 10-K.

- (1) Incorporated by reference to Registrant's Report on Form 10-Q filed with the Commission on November 13, 2001.
- (2) Incorporated by reference to Registrant's Report on Form 10-K for the fiscal year ended March 31, 2001 filed with the Commission on June 22, 2001.
- (3) Incorporated by reference to Registrant's Report on Form 10-K for the fiscal year ended March 30, 1996. filed with the Commission on June 28, 1996.
- (4) Incorporated by reference to Registrant's Registration Statement on Form S-8 filed with the Commission on August 8, 2001 (Registration No. 333-67322).
- (5) Incorporated by reference to Registrant's Registration Statement on Form S-8 filed with the Commission on June 22, 2001 (Registration No. 333-63674).

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- (6) Incorporated by reference to Registrant's Registration Statement on Form S-8 filed with the Commission on October 5, 2001 (Registration No. 333-71046).
  - (7) Incorporated by reference to Registrant's Registration Statement on Form S-8 filed with the Commission on October 10, 2001 (Registration No. 333-71366).
  - (8) Incorporated by reference to Registrant's Registration Statement on Form S-8 filed with the Commission on December 7, 2001 and as amended on February 13, 2002 (Registration No. 333-74804).
  - (9) Incorporated by reference to Registrant's Report on Form 10-K for the fiscal year ended March 30, 2002 filed with the Commission on June 19, 2002.
- (b) Reports on Form 8-K:

None

**SIGNATURES**

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

CIRRUS LOGIC, INC.

By: /s/ STEVEN D. OVERLY

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Steven D. Overly  
*Senior Vice President,  
 Chief Financial Officer,  
 General Counsel and Secretary*

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

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

Signature	Title	Date
/s/ MICHAEL L. HACKWORTH Michael L. Hackworth	Chairman of the Board and Director	June 12, 2003
/s/ DAVID D. FRENCH David D. French	President, Chief Executive Officer and Director	June 12, 2003
/s/ STEVEN D. OVERLY Steven D. Overly	Senior Vice President, Chief Financial Officer, General Counsel and Secretary	June 12, 2003
/s/ KIRK PATTERSON Kirk Patterson	Vice President, Corporate Controller and Chief Accounting Officer	June 12, 2003
/s/ D. JAMES GUZY D. James Guzy	Director	June 12, 2003
/s/ SUHAS S. PATIL Suhas S. Patil	Chairman Emeritus and Director	June 12, 2003
/s/ WALDEN C. RHINES Walden C. Rhines	Director	June 12, 2003

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Signature	Title	Date
<hr/> /s/ WILLIAM D. SHERMAN <hr/> William D. Sherman	Director	June 12, 2003
<hr/> /s/ ROBERT H. SMITH <hr/> Robert H. Smith	Director	June 12, 2003

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

I, David D. French, certify that:

1. I have reviewed this annual report on Form 10-K of Cirrus Logic, Inc;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the company's board of directors:
  - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Signature:

/s/ DAVID D. FRENCH

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David D. French

Date: June 12, 2003

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

I, Steven D. Overly, certify that:

1. I have reviewed this annual report on Form 10-K of Cirrus Logic, Inc;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the company's board of directors:
  - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Signature:

/s/ STEVEN D. OVERLY

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Steven D. Overly

Date: June 12, 2003

**EXHIBIT INDEX**

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

<b>Number</b>	<b>Description</b>
3.4	Amended and Restated Bylaws of Registrant.
10.9	2002 Stock Option Plan, as amended.
10.18	Amendment No. 2 to Lease Agreement by and between Desta Five Partnership, Ltd. and Registrant dated November 10, 2000.
14	Code of Conduct.
21.1	Subsidiaries of the Registrant.
23.1	Consent of Ernst & Young LLP, Independent Auditors.
24.1	Power of Attorney (see signature page).
99.1	Certification of Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certification of Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.



**AMENDED AND RESTATED**

**BYLAWS**

**OF**

**CIRRUS LOGIC, INC.**

**(a Delaware corporation)**

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**AMENDED AND RESTATED**

**BYLAWS OF**

**CIRRUS LOGIC, INC.**  
**(a Delaware corporation)**

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**AMENDED AND RESTATED**

**BYLAWS**

**OF**

**CIRRUS LOGIC, INC.**

**(a Delaware corporation)**

**ARTICLE I**

**CORPORATE OFFICES**

**1.1 REGISTERED OFFICE**

The registered office of the corporation shall be fixed in the certificate of incorporation of the corporation.

**1.2 OTHER OFFICES**

The board of directors may at any time establish branch or subordinate offices at any place or places where the corporation is qualified to do business.

**ARTICLE II**

**MEETINGS OF STOCKHOLDERS**

**2.1 PLACE OF MEETINGS**

Meetings of stockholders shall be held at any place within or outside the State of Delaware designated by the board of directors. In the absence of any such designation, stockholders' meetings shall be held at the principal executive office of the corporation.

**2.2 ANNUAL MEETING**

The annual meeting of stockholders shall be held each year on a date and at a time designated by the board of directors. In the absence of such designation, the annual meeting of stockholders shall be held on the 30th of July in each year at 3:00 p.m. However, if such day falls on a legal holiday, then the meeting shall be held at the same time and place on the next succeeding full business day. At the meeting, directors shall be elected, and any other proper business may be transacted.

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## **2.3 SPECIAL MEETING**

A special meeting of the stockholders may be called at any time by the board of directors, or by the chairman of the board, or by the president. No other person or persons are permitted to call a special meeting.

## **2.4 NOTICE OF STOCKHOLDERS' MEETINGS**

All notices of meetings of stockholders shall be sent or otherwise given in accordance with Section 2.6 of these bylaws not less than ten (10) nor more than sixty (60) days before the date of the meeting. The notice shall specify the place, date and hour of the meeting and (i) in the case of a special meeting, the purpose or purposes for which the meeting is called (no business other than that specified in the notice may be transacted) or (ii) in the case of the annual meeting, those matters which the board of directors, at the time of giving the notice, intends to present for action by the stockholders (but any proper matter may be presented at the meeting for such action). The notice of any meeting at which directors are to be elected shall include the name of any nominee or nominees who, at the time of the notice, the board intends to present for election.

## **2.5 ADVANCE NOTICE OF STOCKHOLDER NOMINEES AND STOCKHOLDER BUSINESS**

Subject to the rights of holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation,

(a) nominations for the election of directors, and

(b) business proposed to be brought before any stockholder meeting may be made by the board of directors or proxy committee appointed by the board of directors or by any stockholder entitled to vote in the election of directors generally if such nomination or business proposed is otherwise proper business before such meeting. However, any such stockholder may nominate one or more persons for election as directors at a meeting or propose business to be brought before a meeting, or both, only if such stockholder has given timely notice to the secretary of the corporation in proper written form of their intent to make such nomination or nominations or to propose such business. To be timely, such stockholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation not less than one hundred twenty (120) calendar days in advance of the date of the corporation's proxy statement released to stockholders in connection with the previous year's annual meeting of stockholders; provided, however, that in the event that no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than thirty (30) days from the date contemplated at the time of the previous year's proxy statement, notice by the stockholder to be timely must be so received a reasonable time before the solicitation is made. To be in proper form, a stockholder's notice to the secretary shall set forth:

(i) the name and address of the stockholder who intends to make the nominations or propose the business and, as the case may be, of the person or persons to be nominated or of the business to be proposed;

(ii) a representation that the stockholder is a holder of record of stock of the corporation entitled to vote at such meeting and, if applicable, intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice;

(iii) if applicable, a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder;

(iv) such other information regarding each nominee or each matter of business to be proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had the nominee been nominated, or intended to be nominated, or the matter been proposed, or intended to be proposed by the board of directors; and

(v) if applicable, the consent of each nominee to serve as director of the corporation if so elected.

The chairman of the meeting shall refuse to acknowledge the nomination of any person or the proposal of any business not made in compliance with the foregoing procedure.

## **2.6 MANNER OF GIVING NOTICE; AFFIDAVIT OF NOTICE**

Written notice of any meeting of stockholders shall be given either personally or by first-class mail or by telegraphic or other written communication. Notices not personally delivered shall be sent charges prepaid and shall be addressed to the stockholder at the address of that stockholder appearing on the books of the corporation or given by the stockholder to the corporation for the purpose of notice. Notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by telegram or other means of written communication.

An affidavit of the mailing or other means of giving any notice of any stockholders' meeting, executed by the secretary, assistant secretary or any transfer agent of the corporation giving the notice, shall be prima facie evidence of the giving of such notice.

## **2.7 QUORUM**

The holders of a majority in voting power of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the certificate of incorporation. If, however, such quorum is not present or represented at any meeting of the stockholders, then either (i) the chairman of the meeting or (ii) the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting in accordance with Section 2.7 of these bylaws.

When a quorum is present at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which, by express

provision of the laws of State of Delaware or of the certificate of incorporation or these bylaws, a different vote is required, in which case such express provision shall govern and control the decision of the question.

If a quorum be initially present, the stockholders may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum, if any action taken is approved by a majority of the stockholders initially constituting the quorum.

## **2.8 ADJOURNED MEETING; NOTICE**

When a meeting is adjourned to another time and place, unless these bylaws otherwise require, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the corporation may transact any business that might have been transacted at the original meeting. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

## **2.9 VOTING**

The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 2.11 of these bylaws subject to the provisions of Sections 217 and 218 of the General Corporation Law of Delaware (relating to voting rights of fiduciaries, pledgors and joint owners, and to voting trusts and other voting agreements).

Except as may be otherwise provided in the certificate of incorporation or these bylaws, each stockholder shall be entitled to one vote for each share of capital stock held by such stockholder and stockholders shall not be entitled to cumulate their votes in the election of directors of with respect to any matter submitted to a vote of the stockholders.

## **2.10 WAIVER OF NOTICE**

Whenever notice is required to be given under any provision of the General Corporation Law of Delaware or of the certificate of incorporation or these bylaws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice unless so required by the certificate of incorporation or these bylaws.

## **2.11 RECORD DATE FOR STOCKHOLDER NOTICE; VOTING**

For purposes of determining the stockholders entitled to notice of any meeting or to vote thereat, the board of directors may fix, in advance, a record date, which shall not precede the date upon which the resolution fixing the record date is adopted by the board

of directors and which shall not be more than sixty (60) days nor less than ten 10 days before the date of any such meeting, and in such event only stockholders of record on the date so fixed are entitled to notice and to vote, notwithstanding any transfer of any shares on the books of the corporation after the record date.

If the board of directors does not so fix a record date, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the business day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting unless the board of directors fixes a new record date for the adjourned meeting, but the board of directors shall fix a new record date if the meeting is adjourned for more than thirty (30) days from the date set for the original meeting.

The record date for any other purpose shall be as provided in Section 8.1 of these bylaws.

## **2.12 PROXIES**

Every person entitled to vote for directors, or on any other matter, shall have the right to do so either in person or by one or more agents authorized by a written proxy signed by the person and filed with the secretary of the corporation, but no such proxy shall be voted or acted upon after three (3) years from its date unless the proxy provides for a longer period. A proxy shall be deemed signed if the stockholder's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission, telefacsimile or otherwise) by the stockholder or the stockholder's attorney-in-fact. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 212(e) of the General Corporation Law of Delaware.

## **2.13 ORGANIZATION**

The president, or in the absence of the president, the chairman of the board, or, in the absence of the president and the chairman of the board, one of the corporation's vice presidents, shall call the meeting of the stockholders to order, and shall act as chairman of the meeting. In the absence of the president, the chairman of the board, and all of the vice presidents, the stockholders shall appoint a chairman for such meeting. The chairman of any meeting of stockholders shall determine the order of business and the procedures at the meeting, including such matters as the regulation of the manner of voting and the conduct of business. The secretary of the corporation shall act as secretary of all meetings of the stockholders, but in the absence of the secretary at any meeting of the stockholders, the chairman of the meeting may appoint any person to act as secretary of the meeting.

## **2.14 LIST OF STOCKHOLDERS ENTITLED TO VOTE**

The officer who has charge of the stock ledger of the corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing

the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

## **ARTICLE III**

### **DIRECTORS**

#### **3.1 POWERS**

Subject to the provisions of the General Corporation Law of Delaware and any limitations in the certificate of incorporation and these bylaws relating to action required to be approved by the stockholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the board of directors.

#### **3.2 NUMBER OF DIRECTORS**

The board of directors shall consist of seven members. The board of directors may increase or decrease the number of directors constituting the board of directors upon the approval of a majority of the directors then in office. The number of directors so determined shall be the authorized number of directors of the corporation. No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

#### **3.3 ELECTION AND TERM OF OFFICE OF DIRECTORS**

Except as provided in Section 3.4 of these bylaws, directors shall be elected at each annual meeting of stockholders to hold office until the next annual meeting. Each director, including a director elected or appointed to fill a vacancy, shall hold office until the expiration of the term for which elected and until a successor has been elected and qualified.

#### **3.4 RESIGNATION AND VACANCIES**

Any director may resign effective on giving written notice to the chairman of the board, the president, the secretary or the board of directors, unless the notice specifies a later time for that resignation to become effective. If the resignation of a director is effective at a future time, the board of directors may elect a successor to take office when the resignation becomes effective.

All vacancies in the board of directors may be filled by a majority of the remaining directors, even if less than a quorum, or by a sole remaining director; provided, that whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the certificate of incorporation, vacancies and

newly created directorships of such class or classes or series may be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected.

### **3.5 PLACE OF MEETINGS; MEETINGS BY TELEPHONE**

Regular meetings of the board of directors may be held at any place within or outside the State of Delaware that has been designated from time to time by resolution of the board. In the absence of such a designation, regular meetings shall be held at the principal executive office of the corporation. Special meetings of the board may be held at any place within or outside the State of Delaware that has been designated in the notice of the meeting or, if not stated in the notice or if there is no notice, at the principal executive office of the corporation.

Any meeting, regular or special, may be held by conference telephone or similar communication equipment, so long as all directors participating in the meeting can hear one another; and all such directors shall be deemed to be present in person at the meeting.

### **3.6 REGULAR MEETINGS**

Regular meetings of the board of directors may be held without notice if the times of such meetings are fixed by the board of directors. If any regular meeting day shall fall on a legal holiday, then the meeting shall be held next succeeding full business day.

### **3.7 SPECIAL MEETINGS; NOTICE**

Special meetings of the board of directors for any purpose or purposes may be called at any time by the chairman of the board, the president, any vice president, the secretary or any two directors.

Notice of the time and place of special meetings shall be delivered personally, by electronic mail ("e-mail") or telephone to each director or sent by first-class mail or telegram, charges prepaid, addressed to each director at that director's address as it is shown on the records of the corporation. If the notice is mailed, it shall be deposited in the United States mail at least four (4) days before the time of the holding of the meeting. If the notice is delivered personally, or by e-mail, telephone or telegram, it shall be delivered personally, by e-mail or telephone or to the telegraph company at least forty-eight (48) hours before the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director. The notice need not specify the purpose or the place of the meeting, if the meeting is to be held at the principal executive office of the corporation.

### **3.8 QUORUM**

A majority of the authorized number of directors shall constitute a quorum for the transaction of business, except to adjourn as provided in Section 3.10 of these bylaws. Every act or decision done or made by a majority of the directors present at a duly held meeting at which a quorum is present shall be regarded as the act of the board of directors, subject to the provisions of the certificate of incorporation and other applicable law.

A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

### **3.9 WAIVER OF NOTICE**

Notice of a meeting need not be given to any director (i) who signs a waiver of notice or a consent to holding the meeting or an approval of the minutes thereof, whether before or after the meeting, or (ii) who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such directors. All such waivers, consents, and approvals shall be filed with the corporate records or made part of the minutes of the meeting. A waiver of notice need not specify the purpose of any regular or special meeting of the board of directors.

### **3.10 ADJOURNMENT**

A majority of the directors present, whether or not constituting a quorum, may adjourn any meeting to another time and place.

### **3.11 NOTICE OF ADJOURNMENT**

Notice of the time and place of holding an adjourned meeting need not be given unless the meeting is adjourned for more than twenty-four (24) hours. If the meeting is adjourned for more than twenty-four (24) hours, then notice of the time and place of the adjourned meeting shall be given before the adjourned meeting takes place, in the manner specified in Section 3.7 of these bylaws, to the directors who were not present at the time of the adjournment.

### **3.12 BOARD ACTION BY WRITTEN CONSENT WITHOUT A MEETING**

Any action required or permitted to be taken by the board of directors may be taken without a meeting, provided that all members of the board individually or collectively consent in writing to that action. Such action by written consent shall have the same force and effect as a unanimous vote of the board of directors. Such written consent and any counterparts thereof shall be filed with the minutes of the proceedings of the board.

### **3.13 FEES AND COMPENSATION OF DIRECTORS**

Directors and members of committees may receive such compensation, if any, for their services and such reimbursement of expenses as may be fixed or determined by resolution of the board of directors. This Section 3.13 shall not be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee or otherwise and receiving compensation for those services.

### **3.14 APPROVAL OF LOANS TO OFFICERS**

The corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the corporation or any of its subsidiaries, including any officer or employee who is a director of the corporation or any of its subsidiaries,

whenever, in the judgment of the directors, such loan, guaranty or assistance may reasonably be expected to benefit the corporation. The loan, guaranty or other assistance may be with or without interest and may be unsecured, or secured in such manner as the board of directors shall approve, including, without limitation, a pledge of shares of stock of the corporation. Nothing contained in this section shall be deemed to deny, limit or restrict the powers of guaranty or warranty of the corporation at common law or under any statute.

## **ARTICLE IV**

### **COMMITTEES**

#### **4.1 COMMITTEES OF DIRECTORS**

The board of directors may, by resolution adopted by a majority of the authorized number of directors, designate one (1) or more committees, each consisting of two or more directors, to serve at the pleasure of the board. The board may designate one (1) or more directors as alternate members of any committee, who may replace any absent member at any meeting of the committee. The appointment of members or alternate members of a committee requires the vote of a majority of the authorized number of directors. Any committee, to the extent provided in the resolution of the board, shall have and may exercise all the powers and authority of the board, but no such committee shall have the power of authority to:

(a) amend the certificate of incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the board of directors as provided in Section 151 (a) of the General Corporation Law of Delaware, fix the designations and any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the corporation);

(b) adopt an agreement of merger or consolidation under Sections 251 or 252 of the General Corporation Law of Delaware;

(c) recommend to the stockholders the sale, lease or exchange of all or substantially all of the corporation's property and assets;

(d) recommend to the stockholders a dissolution of the corporation or a revocation of a dissolution; or

(e) amend the bylaws of the corporation; and, unless the board resolution establishing the committee, the bylaws or the certificate of incorporation expressly so provide, no such committee shall have the power or authority to declare a dividend, to authorize the issuance of stock, or to adopt a certificate of ownership and merger pursuant to Section 253 of the General Corporation Law of Delaware.

## **4.2 MEETINGS AND ACTION OF COMMITTEES**

Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these bylaws, Section 3.5 (place of meetings), Section 3.6 (regular meetings), Section 3.7 (special meetings and notice), Section 3.8 (quorum), Section 3.9 (waiver of notice), Section 3.10 (adjournment), Section 3.11 (notice of adjournment), and Section 3.12 (action without meeting), with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the board of directors and its members; provided, however, that the time of regular meetings of committees may be determined either by resolution of the board of directors or by resolution of the committee, that special meetings of committees may also be called by resolution of the board of directors, and that notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws.

## **4.3 COMMITTEE MINUTES**

Each committee shall keep regular minutes of its meetings and report the same to the board of directors when required.

# **ARTICLE V**

## **OFFICERS**

### **5.1 OFFICERS**

The officers of the corporation shall be a president, a secretary, and a chief financial officer. The corporation may also have, at the discretion of the board of directors, a chairman of the board, one or more vice presidents, one or more assistant secretaries, one or more assistant treasurers, and such other officers as may be appointed in accordance with the provisions of Section 5.3 of these bylaws. Any number of offices may be held by the same person.

### **5.2 ELECTION OF OFFICERS**

The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Section 5.3 or Section 5.5 of these bylaws, shall be chosen by the board, subject to the rights, if any, of an officer under any contract of employment.

### **5.3 SUBORDINATE OFFICERS**

The board of directors may appoint, or may empower the president to appoint, such other officers as the business of the corporation may require, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these bylaws or as the board of directors may from time to time determine.

#### **5.4 REMOVAL AND RESIGNATION OF OFFICERS**

Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by the board of directors at any regular or special meeting of the board or, except in case of an officer chosen by the board of directors, by any officer upon whom such power of removal may be conferred by the board of directors.

Any officer may resign at any time by giving written notice to the corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

#### **5.5 VACANCIES IN OFFICES**

A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these bylaws for regular appointments to that office.

#### **5.6 CHAIRMAN OF THE BOARD**

The chairman of the board, if such an officer be elected, shall, if present, preside at meetings of the board of directors and exercise and perform such other powers and duties as may from time to time be assigned to him by the board of directors or as may be prescribed by these bylaws. If there is no president, then the chairman of the board shall also be the chief executive officer of the corporation and shall have the powers and duties prescribed in Section 5.7 of these bylaws.

#### **5.7 PRESIDENT**

Subject to such supervisory powers, if any, as may be given by the board of directors to the chairman of the board, if there be such an officer, the president shall be the chief executive officer of the corporation and shall, subject to the control of the board of directors, have general supervision, direction, and control of the business and the officers of the corporation. He shall preside at all meetings of the stockholders and, in the absence or nonexistence of a chairman of the board, at all meetings of the board of directors. He shall have the general powers and duties of management usually vested in the office of president of a corporation, and shall have such other powers and duties as may be prescribed by the board of directors or these bylaws.

#### **5.8 VICE PRESIDENTS**

In the absence or disability of the president, the vice presidents, if any, in order of their rank as fixed by the board of directors or, if not ranked, a vice president designated by the board of directors, shall perform all the duties of the president and when so acting shall have all the powers of, and be subject to all the restrictions upon, the president. The

vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the board of directors, these bylaws, the president or the chairman of the board.

## **5.9 SECRETARY**

The secretary shall keep or cause to be kept, at the principal executive office of the corporation or such other place as the board of directors may direct, a book of minutes of all meetings and actions of directors, committees of directors and stockholders. The minutes shall show the time and place of each meeting, whether regular or special (and, if special, how authorized and the notice given), the names of those present at directors' meetings or committee meetings, the number of shares present or represented at stockholders' meetings, and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal executive office of the corporation or at the office of the corporation's transfer agent or registrar, as determined by resolution of the board of directors, a share register, or a duplicate share register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates evidencing such shares, and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the board of directors required to be given by law or by these bylaws. He shall keep the seal of the corporation, if one be adopted, in safe custody and shall have such other powers and perform such other duties as may be prescribed by the board of directors or by these bylaws.

## **5.10 CHIEF FINANCIAL OFFICER**

The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings, and shares. The books of account shall at all reasonable times be open to inspection by any director.

The chief financial officer shall deposit all money and other valuables in the name and to the credit of the corporation with such depositories as may be designated by the board of directors. He shall disburse the funds of the corporation as may be ordered by the board of directors, shall render to the president and directors, whenever they request it, an account of all of his transactions as chief financial officer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as may be prescribed by the board of directors or these bylaws.

## ARTICLE VI

### INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES, AND OTHER AGENTS

#### 6.1 INDEMNIFICATION OF DIRECTORS AND OFFICERS

The corporation shall, to the maximum extent and in the manner permitted by the General Corporation Law of Delaware as the same now exists or may hereafter be amended, indemnify any person against expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred in connection with any threatened, pending or completed action, suit, or proceeding in which such person was or is a party or is threatened to be made a party by reason of the fact that such person is or was a director or officer of the corporation. For purposes of this Section 6.1, a "director" or "officer" of the corporation shall mean any person (i) who is or was a director or officer of the corporation, (ii) who is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, or (iii) who was a director or officer of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

The corporation shall be required to indemnify a director or officer in connection with an action, suit, or proceeding (or part thereof) initiated by such director or officer only if the initiation of such action, suit, or proceeding (or part thereof) by the director or officer was authorized by the Board of Directors of the corporation.

The corporation shall pay the expenses (including attorney's fees) incurred by a director or officer of the corporation entitled to indemnification hereunder in defending any action, suit or proceeding referred to in this Section 6.1 in advance of its final disposition; provided, however, that payment of expenses incurred by a director or officer of the corporation in advance of the final disposition of such action, suit or proceeding shall be made only upon receipt of an undertaking by the director or officer to repay all amounts advanced if it should ultimately be determined that the director or officer is not entitled to be indemnified under this Section 6.1 or otherwise.

The rights conferred on any person by this Article shall not be exclusive of any other rights which such person may have or hereafter acquire under any statute, provision of the corporation's Certificate of Incorporation, these bylaws, agreement, vote of the stockholders or disinterested directors or otherwise.

Any repeal or modification of the foregoing provisions of this Article shall not adversely affect any right or protection hereunder of any person in respect of any act or omission occurring prior to the time of such repeal or modification.

#### 6.2 INDEMNIFICATION OF OTHERS

The corporation shall have the power, to the maximum extent and in the manner permitted by the General Corporation Law of Delaware as the same now exists or may hereafter be amended, to indemnify any person (other than directors and officers) against expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement

actually and reasonably incurred in connection with any threatened, pending or completed action, suit, or proceeding, in which such person was or is a party or is threatened to be made a party by reason of the fact that such person is or was an employee or agent of the corporation. For purposes of this Section 6.2, an “employee” or “agent” of the corporation (other than a director or officer) shall mean any person (i) who is or was an employee or agent of the corporation, (ii) who is or was serving at the request of the corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or (iii) who was an employee or agent of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

### **6.3 INSURANCE**

The corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the corporation would have the power to indemnify him or her against such liability under the provisions of the General Corporation Law of Delaware.

## **ARTICLE VII**

### **RECORDS AND REPORTS**

#### **7.1 MAINTENANCE AND INSPECTION OF RECORDS**

The corporation shall, either at its principal executive office or at such place or places as designated by the board of directors, keep a record of its stockholders listing their names and addresses and the number and class of shares held by each stockholder, a copy of these bylaws as amended to date, accounting books and other records of its business and properties.

Any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the corporation’s stock ledger, a list of its stockholders, and its other books and records and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person’s interest as a stockholder. In every instance where an attorney or other agent is the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing that authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in Delaware or at its principal place of business.

#### **7.2 INSPECTION BY DIRECTORS**

Any director shall have the right to examine (and to make copies of) the corporation’s stock ledger, a list of its stockholders and its other books and records for a purpose reasonably related to his or her position as a director.

### **7.3 ANNUAL STATEMENT TO STOCKHOLDERS**

The board of directors shall present at each annual meeting, and at any special meeting of the stockholders when called for by vote of the stockholders, a full and clear statement of the business and condition of the corporation.

### **7.4 REPRESENTATION OF SHARES OF OTHER CORPORATIONS**

The chairman of the board, if any, the president, any vice president, the chief financial officer, the secretary or any assistant secretary of this corporation, or any other person authorized by the board of directors or the president or a vice president, is authorized to vote, represent and exercise on behalf of this corporation all rights incident to any and all shares of the stock of any other corporation or corporations standing in the name of this corporation. The authority herein granted may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

### **7.5 CERTIFICATION AND INSPECTION OF BYLAWS**

The original or a copy of these bylaws, as amended or otherwise altered to date, certified by the secretary, shall be kept at the corporation's principal executive office and shall be open to inspection by the stockholders of the corporation, at all reasonable times during office hours.

## **ARTICLE VIII**

### **GENERAL MATTERS**

#### **8.1 RECORD DATE FOR PURPOSES OTHER THAN NOTICE AND VOTING**

For purposes of determining the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any other lawful action, the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days before any such action. In that case, only stockholders of record at the close of business on the date so fixed are entitled to receive the dividend, distribution or allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date so fixed, except as otherwise provided in the General Corporation Law of Delaware.

If the board of directors does not so fix a record date, then the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the board adopts the applicable resolution.

## **8.2 CHECKS; DRAFTS; EVIDENCES OF INDEBTEDNESS**

From time to time, the board of directors shall determine by resolution which person or persons may sign or endorse all checks, drafts, other orders for payment of money, notes or other evidences of indebtedness that are issued in the name of or payable to the corporation, and only the persons so authorized shall sign or endorse those instruments.

## **8.3 CORPORATE CONTRACTS AND INSTRUMENTS: HOW EXECUTED**

The board of directors, except as otherwise provided in these bylaws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

## **8.4 STOCK CERTIFICATES; TRANSFER; PARTLY PAID SHARES**

The shares of the corporation shall be represented by certificates, provided that the board of directors of the corporation may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. Notwithstanding the adoption of such a resolution by the board of directors, every holder of stock represented by certificates and, upon request, every holder of uncertificated shares, shall be entitled to have a certificate signed by, or in the name of the corporation by, the chairman or vice-chairman of the board of directors, or the president or vice-president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary of such corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile.

In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

Certificates for shares shall be of such form and device as the board of directors may designate and shall state the name of the record holder of the shares represented thereby; its number; date of issuance; the number of shares for which it is issued; a summary statement or reference to the powers, designations, preferences or other special rights of such stock and the qualifications, limitations or restrictions of such preferences and/or rights, if any; a statement or summary of liens, if any; a conspicuous notice of restrictions upon transfer or registration of transfer, if any; a statement as to any

applicable voting trust agreement; if the shares be assessable, or, if assessments are collectible by personal action, a plain statement of such facts.

Upon surrender to the secretary or transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

The corporation may issue the whole or any part of its shares as partly paid and subject to call for the remainder of the consideration to be paid therefor. Upon the face or back of each stock certificate issued to represent any such partly paid shares, or upon the books and records of the corporation in the case of uncertificated partly paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated. Upon the declaration of any dividend on fully paid shares, the corporation shall declare a dividend upon partly paid shares of the same class, but only upon the basis of the percentage of the consideration actually paid thereon.

## **8.5 SPECIAL DESIGNATION ON CERTIFICATES**

If the corporation is authorized to issue more than one class of stock or more than one series of any class, then the powers, the designations, the preferences and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate that the corporation shall issue to represent such class or series of stock; provided, however, that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the corporation shall issue to represent such class or series of stock a statement that the corporation will furnish without charge to each stockholder who so requests the powers, the designations, the preferences and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

## **8.6 LOST CERTIFICATES**

Except as provided in this Section 8.6, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the corporation and cancelled at the same time. The board of directors may, in case any share certificate or certificate for any other security is lost, stolen or destroyed, authorize the issuance of replacement certificates on such terms and conditions as the board may require; the board may require indemnification of the corporation secured by a bond or other adequate security sufficient to protect the corporation against any claim that may be made against it, including any expense or liability, on account of the alleged loss, theft or destruction of the certificate or the issuance of the replacement certificate.

## **8.7 TRANSFER AGENTS AND REGISTRARS**

The board of directors may appoint one or more transfer agents or transfer clerks, and one or more registrars, each of which shall be an incorporated bank or trust company, either domestic or foreign, who shall be appointed at such times and places as the requirements of the corporation may necessitate and the board of directors may designate.

## **8.8 CONSTRUCTION; DEFINITIONS**

Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the General Corporation Law of Delaware shall govern the construction of these bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

## **ARTICLE IX**

### **AMENDMENTS**

The original or other bylaws of the corporation may be adopted, amended or repealed by the stockholders entitled to vote or by the board of directors of the corporation. The fact that such power has been so conferred upon the directors shall not divest the stockholders of the power, nor limit their power to adopt, amend or repeal bylaws.

Whenever an amendment or new bylaw is adopted, it shall be copied in the book of bylaws with the original bylaws, in the appropriate place. If any bylaw is repealed, the fact of repeal with the date of the meeting at which the repeal was enacted or the filing of the operative written consent(s) shall be stated in said book.

**CERTIFICATE OF ADOPTION OF BYLAWS**

**OF**

**CIRRUS LOGIC, INC.**

Adoption by Incorporator

The undersigned person appointed in the Articles of Incorporation to act as the Incorporator of Cirrus Logic, Inc. hereby adopts the foregoing bylaws, comprising twenty (20) pages, as the Bylaws of the corporation.

Executed this 14th day of August, 1998.

/s/ Robert F. Donohue

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Robert F. Donohue, Incorporator

**Certificate by Secretary of Adoption by Incorporator**

The undersigned hereby certifies that he is the duly elected, qualified, and acting Secretary of Cirrus Logic, Inc. and that the foregoing Bylaws, comprising twenty (20) pages, were adopted as the Bylaws of the corporation on May 21, 1998, by the person appointed in the Articles of Incorporation to act as the Incorporator of the corporation.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand and affixed the corporate seal this 14th day of August, 1998.

/s/ Robert F. Donohue

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Robert F. Donohue, Secretary

**Certificate by Assistant Secretary of Amendment Adopted**

The undersigned hereby certifies that she is the duly elected, qualified, and acting Assistant Secretary of Cirrus Logic, Inc. and that the foregoing Bylaws were amended and restated as the Bylaws of the Corporation on September 26, 2002, by resolution of the Board of Directors.

IN WITNESS WHEREOF, the undersigned has hereunto set her hand and affixed the corporate seal this 26th day of September, 2002.

/s/ Stephanie Lucie

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Assistant Secretary



**CIRRUS LOGIC, INC.****2002 NON-QUALIFIED STOCK OPTION PLAN**

1. Purposes of the Plan. The purposes of this Non-Qualified Stock Option Plan are to attract and retain the best available personnel, to provide additional incentive to Employees and Consultants and to promote the success of the Company's business.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Administrator" means the Board or the Committee.

(b) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 promulgated under the Exchange Act.

(c) "Applicable Laws" means the legal requirements relating to the administration of stock incentive plans, if any, under applicable provisions of federal securities laws, state corporate and securities laws, the Code, the rules of any applicable stock exchange or national market system, and the rules of any foreign jurisdiction applicable to Awards granted to residents therein.

(d) "Award" means the grant of an Option under the Plan.

(e) "Award Agreement" means the written agreement evidencing the grant of an Award executed by the Company and the Grantee, including any amendments thereto.

(f) "Board" means the Board of Directors of the Company.

(g) "Code" means the Internal Revenue Code of 1986, as amended.

(h) "Committee" means the Compensation Committee of the Board.

(i) "Common Stock" means the common stock of the Company.

(j) "Company" means Cirrus Logic, Inc., a Delaware corporation.

(k) "Consultant" means any person (other than an Employee or a Director) who is engaged by the Company or any Related Entity to render consulting or advisory services to the Company or such Related Entity.

(l) "Continuous Service" means that the provision of services to the Company or a Related Entity in any capacity of Employee or Consultant, is not interrupted or terminated. Continuous Service shall not be considered interrupted in the case of (i) any approved leave of absence, (ii) transfers among the Company, any Related Entity, or any successor, in any capacity of Employee or Consultant, or (iii) any change in status as long as the individual remains in the service of the Company or a Related Entity in any capacity of Employee or Consultant (except as

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otherwise provided in the Award Agreement). An approved leave of absence shall include sick leave, military leave, or any other authorized personal leave.

(m) "Corporate Transaction" means any of the following transactions:

(i) a merger or consolidation in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the state in which the Company is incorporated;

(ii) the sale, transfer or other disposition of all or substantially all of the assets of the Company (including the capital stock of the Company's subsidiary corporations); or

(iii) any reverse merger in which the Company is the surviving entity but in which securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities are transferred to a person or persons different from those who held such securities immediately prior to such merger.

(n) "Director" means a member of the Board.

(o) "Disability" means a Grantee would qualify for benefit payments under the long-term disability policy of the Company or the Related Entity to which the Grantee provides services regardless of whether the Grantee is covered by such policy. If the Company or the Related Entity to which the Grantee provides service does not have a long-term disability plan in place, "Disability" means that a Grantee is permanently unable to carry out the responsibilities and functions of the position held by the Grantee by reason of any medically determinable physical or mental impairment. A Grantee will not be considered to have incurred a Disability unless he or she furnishes proof of such impairment sufficient to satisfy the Administrator in its discretion.

(p) "Employee" means any person, other than an Officer or Director, who is an employee of the Company or any Related Entity.

(q) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(r) "Fair Market Value" means, that as of any date, the value of Common Stock shall be the closing price for a Share for the market trading day on such date (or, if no closing price was reported on that date, on the last trading date on which a closing price was reported) on the stock exchange determined by the Administrator to be the primary market for the Common Stock or the Nasdaq National Market, whichever is applicable, or if the Common Stock is not traded on any exchange or national market system, the average of the closing bid and ask prices of a Share on the Nasdaq Small Cap Market on such date (or, if no closing prices were reported on that date, on the last trading date on which closing prices were reported), in each case, as reported in The Wall Street Journal or such other source as the Administrator deems reliable.

(s) "Grantee" means an Employee or Consultant who receives an Award pursuant to an Award Agreement under the Plan.

(t) "Immediate Family" means any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, any person sharing the Grantee's household (other than a tenant or employee), a trust in which these persons have more than fifty percent (50%) of the beneficial interest, a foundation in which these persons (or the Grantee) control the management of assets, and any other entity in which these persons (or the Grantee) own more than fifty percent (50%) of the voting interests.

(u) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(v) "Officer" means a person who is an officer of the Company or a Related Entity within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(w) "Option" means an option to purchase Shares pursuant to an Award Agreement granted under the Plan that is not intended to qualify as an Incentive Stock Option.

(x) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(y) "Plan" means this 2002 Non-Qualified Stock Option Plan.

(z) "Related Entity" means any Parent, Subsidiary and any business, corporation, partnership, limited liability company or other entity in which the Company, a Parent or a Subsidiary holds a substantial ownership interest, directly or indirectly.

(aa) "Rule 16b-3" means Rule 16b-3 promulgated under the Exchange Act or any successor thereto.

(bb) "Share" means a share of the Common Stock.

(cc) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

### 3. Stock Subject to the Plan.

(a) Subject to the provisions of Section 10, below, the maximum aggregate number of Shares that may be issued pursuant to all Awards is 6,000,000 ( six million) Shares, and commencing with the first business day of each fiscal year beginning with March 31, 2003, such maximum aggregate number of Shares shall be increased by a number equal to four percent (4%) of the number of Shares outstanding as of the last business day of the immediately preceding fiscal year. The Shares to be issued pursuant to Awards may be authorized, but unissued, or reacquired Common Stock.

(b) Any Shares covered by an Award (or portion of an Award) that is forfeited or canceled, expires or is settled in cash, shall be deemed not to have been issued for purposes of

determining the maximum aggregate number of Shares which may be issued under the Plan. Shares that actually have been issued under the Plan pursuant to an Award shall not be returned to the Plan and shall not become available for future issuance under the Plan, except that if unvested Shares are forfeited, or repurchased by the Company at their original purchase price, such Shares shall become available for future grant under the Plan.

#### 4. Administration of the Plan.

##### (a) Plan Administrator.

(i) Administration. The Plan shall be administered by (A) the Board or (B) the Committee. The Board may authorize one or more Officers to grant such Awards and may limit such authority as the Board determines from time to time.

(ii) Administration Errors. In the event an Award is granted in a manner inconsistent with the provisions of this subsection (a), such Award shall be presumptively valid as of its grant date to the extent permitted by Applicable Laws.

(b) Powers of the Administrator. Subject to Applicable Laws and the provisions of the Plan (including any other powers given to the Administrator hereunder), and except as otherwise provided by the Board, the Administrator shall have the authority, in its discretion:

(i) to select the Employees and Consultants to whom Awards may be granted from time to time hereunder;

(ii) to determine whether and to what extent Awards are granted hereunder;

(iii) to determine the number of Shares to be covered by each Award granted hereunder;

(iv) to approve forms of Award Agreements for use under the Plan;

(v) to determine the terms and conditions of any Award granted hereunder;

(vi) to amend the terms of any outstanding Award granted under the Plan, provided that any amendment that would adversely affect the Grantee's rights under an outstanding Award shall not be made without the Grantee's written consent;

(vii) to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan, including without limitation, any notice of Award or Award Agreement, granted pursuant to the Plan;

(viii) to establish additional terms, conditions, rules or procedures to accommodate the rules or laws of applicable foreign jurisdictions; provided, however, that no Award shall be granted under any such additional terms, conditions, rules or procedures with terms or conditions which are inconsistent with the provisions of the Plan; and

(ix) to take such other action, not inconsistent with the terms of the Plan, as the Administrator deems appropriate.

5. Eligibility. An Employee or Consultant who has been granted an Award may, if otherwise eligible, be granted additional Awards. Awards may be granted to such Employees or Consultants who are residing in foreign jurisdictions as the Administrator may determine from time to time.

6. Terms and Conditions of Awards.

(a) Conditions of Award. Subject to the terms of the Plan, the Administrator shall determine the provisions, terms, and conditions of each Award including, but not limited to, the Award vesting schedule, repurchase provisions, rights of first refusal, forfeiture provisions, form of payment (cash, Shares, or other consideration) upon settlement of the Award, payment contingencies, and satisfaction of any performance criteria. The performance criteria established by the Administrator may be based on any one of, or combination of, increase in Share price, earnings per Share, total shareholder return, return on equity, return on assets, return on investment, net operating income, cash flow, revenue, economic value added, personal management objectives, or other measure of performance selected by the Administrator. Partial achievement of the specified criteria may result in a payment or vesting corresponding to the degree of achievement as specified in the Award Agreement.

(b) Acquisitions and Other Transactions. The Administrator may issue Awards under the Plan in settlement, assumption or substitution for, outstanding awards or obligations to grant future awards in connection with the Company or a Related Entity acquiring another entity, an interest in another entity or an additional interest in a Related Entity whether by merger, stock purchase, asset purchase or other form of transaction.

(c) Term of Award. The term of each Award shall be the term stated in the Award Agreement provided, however, that the term shall be no more than ten (10) years from the date of grant thereof.

(d) Transferability of Awards. Awards may not be transferred except as provided in the Award Agreement or in the manner and to the extent determined by the Administrator.

(e) Time of Granting Awards. The date of grant of an Award shall for all purposes be the date on which the Administrator makes the determination to grant such Award, or such other date as is determined by the Administrator. Notice of the grant determination shall be given to each Employee or Consultant to whom an Award is so granted within a reasonable time after the date of such grant.

7. Award Exercise Price, Consideration and Taxes.

(a) Exercise Price. The exercise price for an Option shall be determined by the Administrator and stated in the Award Agreement, provided that the per Share exercise price of an Option shall be not less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant.

(b) Consideration. Subject to Applicable Laws, the consideration to be paid for the Shares to be issued upon exercise or purchase of an Award, including the method of payment, shall be determined by the Administrator. In addition to any other types of consideration the Administrator may determine, the Administrator is authorized to accept as consideration for Shares issued under the Plan the following:

(i) cash;

(ii) check;

(iii) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan;

(iv) surrender of Shares or delivery of a properly executed form of attestation of ownership of Shares as the Administrator may require (including withholding of Shares otherwise deliverable upon exercise of the Award) which have a Fair Market Value on the date of surrender or attestation equal to the aggregate exercise price of the Shares as to which said Award shall be exercised (but only to the extent that such exercise of the Award would not result in an accounting compensation charge with respect to the Shares used to pay the exercise price unless otherwise determined by the Administrator); or

(v) any combination of the foregoing methods of payment.

(c) Taxes. No Shares shall be delivered under the Plan to any Grantee or other person until such Grantee or other person has made arrangements acceptable to the Administrator for the satisfaction of any foreign, federal, state, or local income and employment tax withholding obligations. Upon exercise of an Award, the Company shall withhold or collect from Grantee an amount sufficient to satisfy such tax obligations.

## 8. Exercise of Award.

### (a) Procedure for Exercise; Rights as a Shareholder.

(i) Any Award granted hereunder shall be exercisable at such times and under such conditions as determined by the Administrator under the terms of the Plan and specified in the Award Agreement.

(ii) An Award shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Award by the person entitled to exercise the Award and full payment for the Shares with respect to which the Award is exercised. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to Shares subject to an Award, notwithstanding the exercise of the Award. The Company shall issue (or cause to be issued) such stock certificate promptly upon exercise of the Award. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in the Award Agreement or Section 10, below.

(b) Exercise of Award Following Termination of Continuous Service.

(i) An Award may not be exercised after the termination date of such Award set forth in the Award Agreement and may be exercised following the termination of a Grantee's Continuous Service only to the extent provided in the Award Agreement.

(ii) Where the Award Agreement permits a Grantee to exercise an Award following the termination of the Grantee's Continuous Service for a specified period, the Award shall terminate to the extent not exercised on the last day of the specified period or the last day of the original term of the Award, whichever occurs first.

9. Conditions Upon Issuance of Shares.

(a) Shares shall not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Shares pursuant thereto shall comply with all Applicable Laws, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) As a condition to the exercise of an Award, the Company may require the person exercising such Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any Applicable Laws.

10. Adjustments Upon Changes in Capitalization. Subject to any required action by the shareholders of the Company, the number of Shares covered by each outstanding Award, and the number of Shares which have been authorized for issuance under the Plan but as to which no Awards have yet been granted or which have been returned to the Plan, the exercise or purchase price of each such outstanding Award, as well as any other terms that the Administrator determines require adjustment shall be proportionately adjusted for (i) any increase or decrease in the number of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Shares, or similar event affecting the Shares, (ii) any other increase or decrease in the number of issued Shares effected without receipt of consideration by the Company, or (iii) as the Administrator may determine in its discretion, any other transaction with respect to Common Stock to which Section 424(a) of the Code applies or any similar transaction; provided, however that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Administrator and its determination shall be final, binding and conclusive. Except as the Administrator determines, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason hereof shall be made with respect to, the number or price of Shares subject to an Award.

11. Corporate Transactions. In the event of a Corporate Transaction, each outstanding Award shall be assumed or an equivalent option or right substituted by the successor corporation or a Parent or Subsidiary of the successor corporation, or in the event that the successor corporation refuses to assume or substitute for the Award, the Grantee shall have the right to

exercise the Award as to all of the stock subject to the Award, including Shares that would not otherwise be exercisable. If an Award is exercisable in lieu of assumption or substitution in the event of a Corporate Transaction, the Administrator shall notify the Grantee that the Award shall be fully exercisable for a period of fifteen (15) days from the date of such notice, and the Award shall terminate upon the expiration of such period. For the purposes of this paragraph, the Award shall be considered assumed if, following the Corporate Transaction, the Award confers the right to purchase or receive, for each Share subject to the Award immediately prior to the Corporate Transaction, the consideration received in the Corporate Transaction by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the Corporate Transaction was not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Award, for each Share subject to the Award, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the Corporate Transaction.

12. Dissolution or Liquidation. In the event of the dissolution or liquidation of the Company, the Administrator shall notify each Grantee as soon as practicable prior to the effective date of such proposed transaction. The Administrator in its discretion may provide for a Grantee to have the right to exercise his or her Award until ten (10) days prior to such transaction as to all of the Shares covered thereby, including Shares that would not otherwise be exercisable. In addition, the Administrator may provide that any Company repurchase option applicable to any Shares purchased upon exercise of an Award shall lapse as to all such Shares, provided the proposed dissolution or liquidation takes place at the time and in the manner contemplated. To the extent it has not been previously exercised, an Award will terminate immediately prior to the consummation of such proposed action.

13. Effective Date and Term of Plan. The Plan shall become effective upon its adoption by the Board. It shall continue in effect indefinitely until it is terminated by the Board. Subject to Applicable Laws, Awards may be granted under the Plan upon it becoming effective.

14. Amendment, Suspension or Termination of the Plan.

(a) The Board may at any time amend, suspend or terminate the Plan.

(b) The Administrator may amend the terms of any outstanding Award, prospectively or retroactively, but no such amendment shall (i) impair the rights of any Grantee without the Grantee's consent or (ii) modify the terms of any Award in a manner inconsistent with the provisions of the Plan. Subject to the above provisions, the Board shall have authority to amend the Plan to take into account changes in Applicable Laws and accounting rules as well as other developments, and to grant Awards which qualify for beneficial treatment under such rules.

(c) No Award may be granted during any suspension of the Plan or after termination of the Plan.

(d) Any amendment, suspension or termination of the Plan shall not affect Awards already granted, and such Awards shall remain in full force and effect as if the Plan had not been amended, suspended or terminated, unless mutually agreed otherwise between the Grantee and the Administrator, which agreement must be in writing and signed by the Grantee and the Company.

15. Reservation of Shares.

(e) The Company, during the term of the Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

(f) The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

16. No Effect on Terms of Employment/Consulting Relationship. The Plan shall not confer upon any Grantee any right with respect to the Grantee's Continuous Service, nor shall it interfere in any way with his or her right or the Company's right to terminate the Grantee's Continuous Service at any time, with or without cause.

17. No Effect on Retirement and Other Benefit Plans. Except as specifically provided in a retirement or other benefit plan of the Company or a Related Entity, Awards shall not be deemed compensation for purposes of computing benefits or contributions under any retirement plan of the Company or a Related Entity, and shall not affect any benefits under any other benefit plan of any kind or any benefit plan subsequently instituted under which the availability or amount of benefits is related to level of compensation. The Plan is not a "Retirement Plan" or "Welfare Plan" under the Employee Retirement Income Security Act of 1974, as amended.

**AMENDMENT TO THE  
CIRRUS LOGIC, INC. 2002 STOCK OPTION PLAN**

In accordance with the provisions of Section 14 of the Cirrus Logic, Inc. 2002 Stock Option Plan (the "Plan"), Cirrus Logic, Inc. hereby amends the Plan, effective as of November 1, 2002, as follows:

1. Section 2 of the Plan is amended by re-designating the existing clauses (x) through (cc) thereof as clauses (y) through (dd), respectively, and adding a new clause (x) to read as follows:

“(x) “Option Exchange Program” means a program approved by the Administrator whereby outstanding Options are exchanged for Options (or stock options granted pursuant to a plan of a Parent or Subsidiary of the Company) with a lower exercise price or are amended to decrease the exercise price as a result of a decline in the Fair Market Value of the Common Stock.”

2. Section 4(b) of the Plan is amended by re-designating the existing clauses (vii), (viii) and (ix) thereof as clauses (viii), (ix) and (x), respectively, and adding a new clause (vii) to read as follows:

“(vii) to implement an Option Exchange Program on such terms and conditions as the Administrator in its discretion deems appropriate, provided that no amendment or adjustment to an Option that would materially and adversely affect the rights of any Optionee shall be made without the prior written consent of the Optionee;”

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**CIRRUS LOGIC, INC. 2002 NON-QUALIFIED STOCK OPTION PLAN  
NON-QUALIFIED STOCK OPTION AWARD AGREEMENT**

1. Grant of Option. Cirrus Logic, Inc., a Delaware corporation (the “Company”), hereby grants to the Grantee (the “Grantee”) named in the Notice of Stock Option Award (the “Notice”), a non-qualified stock option (the “Option”) to purchase the Total Number of Shares of Common Stock subject to the Option (the “Shares”) set forth in the Notice, at the Exercise Price per Share set forth in the Notice (the “Exercise Price”) subject to the terms and provisions of the Notice, this Non-Qualified Stock Option Award Agreement (the “Option Agreement”) and the Company’s 2002 Non-Qualified Stock Option Plan, as amended from time to time (the “Plan”), which are incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Option Agreement.

2. Exercise of Option.

(a) Right to Exercise. The Option shall be exercisable during its term in accordance with the Vesting Schedule set out in the Notice and with the applicable provisions of the Plan and this Option Agreement. During any authorized leave of absence, the continued vesting of the Option shall be determined in accordance with the Company’s leave of absence policy as may be amended from time to time. The Option shall be subject to the provisions of Sections 11 and 12 of the Plan relating to the exercisability or termination of the Option in the event of certain transactions. The Grantee shall be subject to reasonable limitations on the number of requested exercises during any monthly or weekly period as determined by the Administrator. In no event shall the Company issue fractional Shares.

(b) Method of Exercise. This Option is exercisable by delivery of an exercise notice, in the form attached as Exhibit A (the “Exercise Notice”), which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised (the “Exercised Shares”), and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan. The Exercise Notice shall be completed by the Optionee and delivered to E\*Trade as the Company’s Plan Administrator. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares. This Option shall be deemed to be exercised upon receipt by E\*Trade on behalf of the Company of such fully executed Exercise Notice accompanied by such aggregate Exercise Price.

No Shares shall be issued pursuant to the exercise of this Option unless such issuance and exercise complies with Applicable Laws. Assuming such compliance, for income tax purposes the Exercised Shares shall be considered transferred to the Optionee on the date the Option is exercised with respect to such Exercised Shares.

(c) Taxes. No Shares will be delivered to the Grantee or other person pursuant to the exercise of the Option until the Grantee or other person has made arrangements acceptable to the Administrator for the satisfaction of applicable income tax, employment tax, and social security tax withholding obligations. Upon exercise of the Option, the Company or the Grantee’s employer may offset or withhold (from any amount owed by the Company or the

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Grantee's employer to the Grantee) or collect from the Grantee or other person an amount sufficient to satisfy such tax obligations and/or the employer's withholding obligations.

3. Method of Payment. Payment of the Exercise Price shall be by any of the following, or a combination thereof, at the election of the Grantee; provided, however, that such exercise method does not then violate any Applicable Law:

(a) cash;

(b) check;

(c) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan;  
or

(d) surrender of Shares (including withholding of Shares otherwise deliverable upon exercise of the Option) which have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Shares as to which the Option is being exercised (but only to the extent that such exercise of the Option would not result in an accounting compensation charge with respect to the Shares used to pay the exercise price).

4. Restrictions on Exercise. The Option may not be exercised if the issuance of the Shares subject to the Option upon such exercise would constitute a violation of any Applicable Laws.

5. Termination or Change of Continuous Service. In the event the Grantee's Continuous Service terminates, the Grantee may, to the extent otherwise so entitled at the date of such termination (the "Termination Date"), exercise the Option during the ninety (90)-day period that begins on the day following the Termination Date. In no event shall the Option be exercised later than the Expiration Date set forth in the Notice. In the event of the Grantee's change in status from Employee or Consultant to any other status of Employee or Consultant, the Option shall remain in effect and, except to the extent otherwise determined by the Administrator, continue to vest. Except as provided in Sections 6 and 7 below, to the extent that the Grantee is not entitled to exercise the Option on the Termination Date, or if the Grantee does not exercise the Option within the 90 days following termination, the Option shall terminate.

6. Disability of Grantee. In the event the Grantee's Continuous Service terminates as a result of his or her Disability, the Grantee may, but only within twelve (12) months from the Termination Date (and in no event later than the Expiration Date), exercise the Option to the extent he or she was otherwise entitled to exercise it on the Termination Date. To the extent that the Grantee is not entitled to exercise the Option on the Termination Date, or if the Grantee does not exercise the Option to the extent so entitled within the time specified herein, the Option shall terminate.

7. Death of Grantee. In the event of the termination of the Grantee's Continuous Service as a result of his or her death, the Grantee's estate, or a person who acquired the right to exercise the Option by bequest or inheritance, may exercise the Option, but only to the extent the Grantee could exercise the Option at the date of termination, within twelve (12) months from the date of death (but in no event later than the Expiration Date). To the extent that the Grantee is

not entitled to exercise the Option on the date of death, or if the Option is not exercised to the extent so entitled within the time specified herein, the Option shall terminate.

8. Non-Transferability of Option. An Option may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than as set forth in this Section 8. The Option may be transferred to any person by will and by the laws of descent and distribution. In addition, the Option also may be transferred during the lifetime of the Grantee pursuant to a domestic relations order to members of the Grantee's Immediate Family to the extent and in the manner determined by the Administrator. The terms of the Option shall be binding upon the executors, administrators, heirs, successors and transferees of the Grantee.

9. Term of Option. The Option may be exercised no later than the Expiration Date set forth in the Notice or such earlier date as otherwise provided herein.

10. Tax Consequences. Set forth below is a brief summary as of the date of this Option Agreement of some of the federal tax consequences of exercise of the Option and disposition of the Shares. **THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. THE GRANTEE SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THE OPTION OR DISPOSING OF THE SHARES.**

(a) Exercise of Options. On exercise of an Option, the Grantee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price. If the Grantee is an Employee or a former Employee, the Company will be required to withhold from the Grantee's compensation or collect from the Grantee and pay to the applicable taxing authorities an amount in cash equal to a percentage of this compensation income at the time of exercise, and may refuse to honor the exercise and refuse to deliver Shares if such withholding amounts are not delivered at the time of exercise.

(b) Disposition of Shares. If Shares acquired as a result of an Option exercise are held for more than one year, any gain realized on disposition of the Shares will be treated as long-term capital gain for federal income tax purposes.

11. Entire Agreement: Governing Law. The Notice, the Plan and this Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and the Grantee with respect to the subject matter hereof, and may not be modified adversely to the Grantee's interest except by means of a writing signed by the Company and the Grantee. Nothing in the Notice, the Plan and this Option Agreement (except as expressly provided therein) is intended to confer any rights or remedies on any persons other than the parties. The Notice, the Plan and this Option Agreement are to be construed in accordance with and governed by the internal laws of the State of Texas without giving effect to any choice of law rule that would cause the application of the laws of any jurisdiction other than the internal laws of the State of Texas to the rights and duties of the parties. Should any provision of the Notice, the Plan or this Option Agreement be determined by a court of law to be illegal or unenforceable,

such provision shall be enforced to the fullest extent allowed by law and the other provisions shall nevertheless remain effective and shall remain enforceable.

12. Headings. The captions used in the Notice and this Option Agreement are inserted for convenience and shall not be deemed a part of the Option for construction or interpretation.

13. Dispute Resolution The provisions of this Section 13 shall be the exclusive means of resolving disputes arising out of or relating to the Notice, the Plan and this Option Agreement. The Company, the Grantee, and the Grantee's assignees pursuant to Sections 7 and 8 (the "parties") shall attempt in good faith to resolve any disputes arising out of or relating to the Notice, the Plan and this Option Agreement by negotiation between individuals who have authority to settle the controversy. Negotiations shall be commenced by either party by notice of a written statement of the party's position and the name and title of the individual who will represent the party. Within thirty (30) days of the written notification, the parties shall meet at a mutually acceptable time and place, and thereafter as often as they reasonably deem necessary, to resolve the dispute.

Any controversy, dispute or claim that has not been settled by negotiation within thirty (30) days of the written notification as set forth above shall be finally settled by arbitration under the Commercial Arbitration Rules of the American Arbitration Association ("AAA") by three arbitrators. In such event, the claimant will deliver a written notice to the respondent(s) and the AAA initiating arbitration and naming an arbitrator. Within twenty (20) days after receipt of such arbitration notice, the respondent(s) shall name an arbitrator. Within twenty (20) days from the naming of the two arbitrators, the two arbitrators shall name a third arbitrator. If there are multiple claimants and/or multiple respondents, all claimants and/or all respondents shall attempt to agree upon naming their respective arbitrator. If the claimants or respondents, as the case may be, fail to name their respective arbitrator, or if the two arbitrators fail to name a third arbitrator, or if within twenty (20) days after any arbitrator shall resign or otherwise cease to serve as such a replacement arbitrator is not named by the party that originally named such arbitrator, such arbitrator as to which agreement cannot be reached or as to which a timely appointment is not made shall be named by the AAA. The place of arbitration shall be Austin, Texas. The award of the arbitrators may be entered in any court of competent jurisdiction. The costs of the arbitration shall be shared by the disputing parties equally. Notwithstanding anything to the contrary herein, the arbitrators shall not award nor shall the Company have any liability for any consequential, punitive, special, incidental, indirect or similar damages.

14. Notices. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery or upon deposit in the United States mail by certified mail (if the parties are within the United States) or upon deposit for delivery by an internationally recognized express mail courier service (for international delivery of notice), with postage and fees prepaid, addressed to the other party at its address as such party may designate in writing from time to time to the other party.

By your signature below, you agree that this Option is granted under and governed by the terms and conditions of the Plan and this Option Agreement. Optionee has reviewed the Plan and this Option Agreement in their entirety, has had an opportunity to obtain the advice of

counsel prior to executing this Option Agreement and fully understands all provisions of the Plan and Option Agreement. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Option Agreement. Optionee further agrees to notify the Company upon any change in the residence address indicated below.

OPTIONEE:

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Signature

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Printed Name

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Date



**AMENDMENT NO. 2 TO  
LEASE AGREEMENT**

**BY AND BETWEEN  
DESTA FIVE PARTNERSHIP, LTD.  
AS LANDLORD,**

**AND**

**CIRRUS LOGIC, INC.  
AS TENANT**

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## SECOND AMENDMENT TO LEASE AGREEMENT

This is the Second Amendment to the Lease Agreement by and between Desta Five Partnership, Ltd., as Landlord, and Cirrus Logic, Inc., as Tenant, effective November 10, 2000, as amended by the First Amendment to Lease Agreement, covering all of the rentable area in the Terrace V Building (the "Lease").

Landlord has completed the Building and Landlord and Tenant hereby agree to make certain amendments to the Lease to confirm the Commencement Date, the Base Rent, as well as other matters as follows:

1. **Basic Lease Provisions.** Landlord and Tenant agree to adopt the First Restated Basic Lease Provisions to the Lease which are attached hereto in lieu of the Basic Lease Provisions to the Lease, which shall have no further force or effect.

2. **Lease Term.** The provisions of Section 2.01 are hereby deleted and the following is substituted in lieu thereof:

"The primary term of this Lease shall commence on the Commencement Date and shall expire on August 31, 2012 (the "Expiration Date"). The "Lease Term" of this Lease shall be primary term specified in this Section 2.01, as renewed or otherwise extended or earlier terminated pursuant to the terms and provisions set forth herein."

3. **Base Rent.** The provisions of Section 3.01 are hereby amended and revised in their entirety as follows:

3.01 **Base Rent.** Landlord and Tenant agree the annual Base Rent shall be \$4,632,685.32. Tenant shall pay the Base Rent

to Landlord in monthly installments of \$386,057.11 in advance on or before the first day of each calendar month during the Lease Term. If the Lease Term is extended for a partial month, then the Base Rent for any partial calendar month will be prorated on a per diem basis.

Notwithstanding the foregoing amendment of Section 3.01, Landlord and Tenant agree that the mechanism for determining "Project Costs", as set out in Section 3.01 prior to this Second Amendment, will continue to be utilized for the purpose of determining the Base Rent applicable to Building VI under the provisions set out in Paragraph I.C.2. of Exhibit "T" attached to the Lease.

4. **Ratification of Lease.** Except as amended herein, the Lease is ratified and confirmed by Landlord and Tenant.

Executed and effective this 20th day of December, 2002.

**LANDLORD:**

DESTA FIVE PARTNERSHIP, LTD.

BY: Desta Five Development Corp.,  
its general partner

By: /s/ L. Paul Latham

\_\_\_\_\_  
L. Paul Latham,  
President

Approved as to Form and Content:

BANK ONE, NA,  
as Administrative Agent and Co-Lender

By: \_\_\_\_\_  
Jeffrey A. Etter,  
First Vice President

**TENANT:**

CIRRUS LOGIC, INC.

BY: /s/ Steven D. Overly

\_\_\_\_\_  
Name: Steven D. Overly

\_\_\_\_\_  
Title: SVP, CFO & GC

**FIRST RESTATED  
BASIC LEASE PROVISIONS**

**Landlord:** Desta Five Partnership, Ltd., a Texas limited partnership

**Landlord's Address:** 6 Desta Drive, Suite 6500  
Midland, Texas 79705  
Attn: Mr. L. Paul Latham  
Telephone No. (915) 688-3212  
Fax No. (915) 688-3247

with copy to:  
Desta Five Partnership, Ltd.  
2700 Via Fortuna, Suite 140  
Austin, Texas 78746  
Attn: Mr. Rod Arend  
Telephone No. (512) 306-9093  
Fax No. (512) 306-9112

**Tenant:** Cirrus Logic, Inc.

**Tenant's Address:** 2901 Via Fortuna, Suite 100  
Austin, Texas 78746  
Attention: General Counsel  
Telephone No. (512) 851-4234  
Fax No. (512) 851-4136

with copy to:  
2901 Via Fortuna, Suite 100  
Austin, Texas 78746  
Attention: Treasurer  
Telephone No. (512) 851-4002  
Fax No. (512) 851-4136

**Building:** The land described on Exhibit A attached hereto (the "Land"), together with all improvements to be constructed thereon, including all building systems which are included within and/or serve the Building and the related parking garage located on the Land (the "Garage"). The floor plans of the Building are generally depicted on Exhibit B attached hereto. The Building will be known as, 2901 Via Fortuna, Austin, Texas 78746.

**Leased Premises:** All of the Building and the Land.

**Total Building Area:** 196,717 square feet of Rentable Area, subject to adjustment as provided in Section 1.01(a).

**Base Rent:** Beginning on the commencement Date, Base Rent under this Lease will be payable as set forth below:

<u>Lease Months</u>	<u>Annual Rate</u>	<u>Monthly Installments</u>
<b>1-120</b>	<b>\$23.55</b>	<b>\$386,057.11</b>

**Rent:** The Base Rent, Additional Rent (hereinafter defined), and all other amounts payable by Tenant to Landlord under this Lease.

**Tenant's Percentage:** One Hundred percent (100%);

**Effective Date:** November 10, 2000

**Commencement Date:** September 1, 2002

**Lease Term:** One Hundred Twenty (120) months, commencing on the Commencement Date and subject to the option to extend set forth on Exhibit H.

**Building Standard Hours:** 7:00 a.m. to 7:00 p.m. on each Monday through Friday (excluding Building Holidays) and 8:00 a.m. to 5:00 p.m. on each Saturday (excluding Building Holidays), subject to the modifications set forth in Section 4.01(b). Notwithstanding the foregoing recitation of Building Standard Hours or any other provision in this Lease to the contrary; it is agreed and understood that Tenant and Tenant's authorized employees shall have free and uninterrupted access to the Leased Premises at all times (24 hours per day, 7 days per week).

**Building Holidays:** New Years Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day.

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***Tenant's Broker:*** NAI Commercial Industrial Properties Company  
7320 N. Mopac Expressway, Suite 100  
Austin, Texas 78731

***Landlord's Broker:*** Colliers Oxford Commercial, Inc.  
2700 Via Fortuna Drive, Suite 100  
Austin, Texas 78748

***Security:*** A cash deposit of \$540,160 plus a \$9,000,000 Letter of Credit, as may be adjusted pursuant to Section 3.05.

***Parking:*** Tenant shall be entitled to utilize all of the parking spaces in the Garage (which will be at least 768 parking spaces) and all of the surface parking spaces which are located upon the Land, all at no cost to Tenant.

***Permitted Use*** General office uses, uses related to integrated circuit design, and uses which are ancillary or appurtenant to the foregoing, including, but not limited to training centers, cafeterias, computer rooms, data and word processing centers, and research services use including research laboratories in which testing and verification of electrical products occurs in accordance with applicable city zoning ordinances.

The Basic Lease Provisions set forth hereinabove are hereby incorporated into and made a part of the Lease Agreement which is attached hereto (the "Lease"). Each reference in the Lease to any of the provisions or definitions set forth in these Basic Lease Provisions shall mean and refer to the provisions and definitions hereinabove set forth and shall be used in conjunction with the provisions of the Lease. In the event of any direct conflict between these Basic Lease Provision and the Lease, these Basic Lease Provisions shall control; provided, however, that those provisions in the Lease (including all exhibits and attachments thereto) which expressly require an adjustment or modification to any of the matters set forth in these Basic Lease Provisions shall supersede the adjusted or modified provisions of these Basic Lease Provisions.



**Corporate Code of Conduct**

**of**

**Cirrus Logic, Inc.**

June 5, 2003

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## CORPORATE CODE OF CONDUCT

### I. ETHICS AND COMPLIANCE

Cirrus Logic, Inc. (“we” or the “Company”) is committed to promoting integrity, honesty and professionalism, and maintaining the highest standards of ethical conduct in all of the Company’s activities. The Company’s business success is dependent on our reputation for integrity and fairness. Therefore, it is essential that the highest standards of conduct and professional integrity be observed in all contacts made by our directors and employees with our customers, creditors, stockholders, suppliers, governmental officials, fellow employees and members of the general public. In this regard, we have established this written set of policies dealing with the rules and policies of conduct to be used in conducting the business affairs of the Company.

This document does not cover all Company policies or all laws. Please refer to CRUS.net for additional policies adopted by the Company. In addition, if a local law conflicts with a policy in this Code, then you must comply with the law; if a local custom or practice conflicts with this Code, then you must comply with this Code. If your line of business or region has a policy or practice that conflicts with this Code, then you must comply with this Code. If your line of business or region has policies or practices that require more of you than is required by the Code or if local law requires more, then you must follow the stricter policy, practice or law. Think of this Code as a baseline, or a minimum requirement, which must always be followed. The only time you can go below the baseline is if a law absolutely requires you to do so or if the Company’s Board of Directors or the Governance and Nominating Committee of the Board has approved the exception in writing.

No set of policy guidelines can anticipate all situations that the Company’s employees or directors may encounter. When faced with a business decision with ethical implications, you as an employee or director should ask yourself the following questions:

- Would my actions inspire trust?
- Are my actions legal? If legal, are they also ethical? Are my actions fair and honest in every respect?
- Can I defend this action with a clear conscience before my supervisor, fellow employees and the general public?
- Would my supervisor act this way? Would it be helpful to ask my supervisor about this matter before I act?
- Would I want my actions reported in the newspaper?

When in doubt, you are encouraged to seek guidance and express any concerns you may have regarding this Code. Questions regarding these rules and policies should be directed, and concerns or possible violations of these rules and policies should be promptly reported, to Stephanie Lucie in the Legal Department.

Violations of the rules and policies of conduct set forth in this Code will result in corrective action up to and including termination of employment.

## **II. CONFIDENTIAL INFORMATION**

Information on the Company's activities, strategies and business data is proprietary. Confidential information includes all non-public information that might be of use to the Company's competitors, or harmful to the Company or the Company's customers, if disclosed. We believe that our confidential proprietary information and data are important corporate assets in the operation of our business and prohibit the use or disclosure of this information, except when disclosure is authorized or legally mandated. You must be careful not to disclose confidential information to unauthorized persons, either inside or outside the Company, and you must exercise care to protect the confidentiality of information received from any other party.

To protect this information, it is Company policy that:

- Confidential information of the Company should be disclosed within the Company only on a need-to-know basis.
- Confidential information of the Company should be disclosed outside the Company only when required by law or when necessary to further the Company's business activities and in accordance with the Company's disclosure guidelines. Any disclosure of confidential information outside the Company must be pursuant to an approved Non-Disclosure Agreement.

Concerns with respect to confidential information may arise in the securities area as well. See the Company's Policy on Insider Trading and Confidentiality that is accessible on CRUS.net. If you believe you have a legal obligation to disclose confidential information, you should consult the Legal Department prior to doing so.

### ***Patents, Copyrights, Trademarks and Proprietary Information***

Protection of the Company's intellectual property, including its trade secrets, pending patent information, scientific and technical knowledge, know-how and the experience developed in the course of the Company's activities, is essential to maintaining our competitive advantage. This information should be protected by all Company personnel and should not be disclosed to outsiders.

Much of the information we develop in research, production, marketing, sales, legal and finance is original in nature and its protection is essential to our continued success. This information should be safeguarded. Proprietary/confidential information and trade secrets may consist of any formula, pattern, device or compilation of information maintained in secrecy that is used in business, and that gives the business an opportunity to obtain an advantage over competitors who do not know about it or use it. This information should be protected by all Company employees and not disclosed to outsiders. Its loss through inadvertent or improper disclosure could be harmful to the Company.

### ***No Inadvertent Disclosures***

In becoming an employee, you were required to sign an agreement confirming your obligation not to disclose the Company's proprietary confidential information, both while you are employed and after you leave the Company. The loyalty, integrity and sound judgment of the Company's employees both on and off the job are essential to the protection of this information.

You should be especially mindful in the use of the telephone, cellular telephone, fax, telex, electronic mail, and other electronic means of storing and transmitting information.

You should take every practicable step to preserve the Company's confidential information. For example, you should not discuss material information in elevators, hallways, restrooms, restaurants, airplanes, taxicabs, or any place where you can be overheard; not read confidential documents in public places or discard them where they can be retrieved by others; not leave confidential documents in unattended conference rooms; and not leave confidential documents behind when a meeting or conference is over. Also, you should be cautious when conducting conversations on speaker telephones in offices, and of the potential for eavesdropping on conversations conducted on cellular, car or airplane telephones, and other unsecured means of communication.

### **III. CONFLICTS OF INTEREST AND CORPORATE OPPORTUNITIES**

A conflict of interest occurs when an individual's private interest interferes, or even appears to interfere, in any way with the interests of the Company as a whole. As a result, you as an employee or director must avoid any action that may involve, or may appear to involve, a conflict of interest with the Company. If you consider undertaking any transaction or relationship that reasonably could be expected to give rise to an actual or apparent conflict or disparity of interest between you and the Company, or in your personal or professional relationship, you must promptly disclose this activity for review by the Legal Department. Immediate disclosure of any potential conflict is the key to remaining in full compliance with this Code.

#### *Examples of Potential Conflicts:*

- You take actions or have interests that may make it difficult to perform your work at the Company objectively and effectively.
- You, or a member of your family, receive improper personal benefits as a result of your position in the Company.
- You perform services for, serve as a director, employee or consultant of, or have a substantial interest in, any competitor of the Company.
- You engage in a transaction with the Company, or work for or own a substantial interest in any organization, doing or seeking to do business with the Company.

- You intend to acquire ownership of, or an interest in, any type of property (such as real estate, patent rights, securities or software) in which the Company has or might reasonably be thought to have an interest.

In addition, you are prohibited from engaging in the following corporate opportunities:

- Taking for yourself personally opportunities that are discovered through the use of Company property, information or position.
- Using Company property, information or position for personal gain.
- Competing with the Company.

You owe a duty to the Company to advance the Company's legitimate interests when the opportunity to do so arises.

#### **IV. FAIR DEALING**

You should endeavor to deal fairly with the Company's customers, suppliers, competitors and employees. You should not take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair-dealing practice.

#### **V. GOVERNMENT INVESTIGATIONS**

It is Company policy to fully cooperate with any appropriate government investigation. If you learn about a possible government investigation or inquiry, inform the Legal Department immediately.

The Company prohibits any employee, officer or director from altering, destroying, mutilating or concealing a record, document, or other object, or attempting to do so, with the intent to impair the object's integrity or availability for use in an official proceeding. Furthermore, the Company prohibits any employee or director from otherwise obstructing, influencing or impeding any official proceeding or any attempts to do so.

#### **VI. INSIDER INFORMATION**

See the Company's Policy on Insider Trading and Confidentiality. This policy can be accessed on [CRUS.net](http://CRUS.net).

#### **VII. CUSTOMER, SUPPLIER AND COMPETITOR RELATIONS**

The Company, its employees, and representatives must treat customers, business allies and suppliers fairly and may not engage in anticompetitive practices that unlawfully restrict the free market economy. In addition, the Company and employees and directors must comply with all U.S. and non-U.S. laws, rules and regulations applicable in the country, state and local jurisdiction where the Company conducts business.

### ***Permissible Payments***

The payment of normal discounts and allowances, commissions, fees, sales promotion activity, entertainment, and the extension of services and other customary courtesies in the ordinary course of business is permissible so long as they have been authorized and properly recorded. If a customer, supplier, vendor or government agency has adopted a more stringent policy than the Company's regarding gifts and gratuities, then you must comply with that more stringent policy when dealing with that person or entity. (See below for a discussion of gifts to government representatives.)

### ***Bribes***

The Company's objective is to compete in the marketplace on the basis of superior products, services and competitive prices. No payment in any form (whether funds or assets) shall be made directly or indirectly to anyone for the purpose of obtaining or retaining business or to obtain any other favorable action. It is imperative that each and every person who does business with the Company understands that we will not, under any circumstances, give or accept bribes or kickbacks. A violation of this policy will subject you to corrective action as well as potential criminal prosecution.

### ***Gifts***

No gift should be accepted from a supplier, vendor or customer unless the gift has insubstantial value and a refusal to accept it would be discourteous or otherwise harmful to the Company. You must receive approval from your supervisor before you accept any gift having a value over \$50.00. This applies equally to gifts to suppliers or vendors or non-governmental customers. (See below for a discussion of gifts to government representatives.)

### ***Entertainment***

Appropriate business entertainment of non-government employees occurring in connection with business discussions or the development of business relationships is generally deemed appropriate in the conduct of official business. This may include business-related meals and trips, refreshments before or after a business meeting, and occasional athletic, theatrical or cultural events. Entertainment in any form that would likely result in a feeling or expectation of personal obligation should not be extended or accepted. This applies equally to giving or receiving entertainment.

### ***Government Representatives***

What is acceptable practice in the commercial business environment may be illegal or against the policies of federal, state or local governments. Therefore, no gifts or business entertainment of any kind may be given to any government employee without the prior approval of the Legal Department, except for items of nominal value having the Cirrus Logic logo (i.e., pens, coffee mugs, etc.).

In addition, the Foreign Corrupt Practices Act (“FCPA”) prohibits giving anything of value to officials or political parties of foreign governments in order to obtain or retain business or to gain any improper advantage. Any proposed incentive to be given to government personnel to secure an improper advantage is not permitted. In your relations with governmental agencies or customers, the Company and you may not directly or indirectly engage in bribery, kickbacks, payoffs or other corrupt business practices. If you suspect that any payment is being used for improper purposes, you must immediately report the situation to the Legal Department for investigation.

In certain instances, the FCPA does allow what are referred to as “facilitating payments.” Typically, these are nominal payments given to relatively low-ranking government personnel to hasten the inspection of goods or the performance of other basic administrative tasks. Nonetheless, the Company strongly discourages these payments, and in any case, the payment must also be consistent with applicable laws of the host country. If you are faced with or anticipate a situation that may involve a facilitating payment, contact the Legal Department before taking any action.

The FCPA also prohibits knowingly falsifying the Company’s books and records or knowingly circumventing or failing to implement accounting controls.

### ***Third-Party Agents***

The Company’s business may involve the use of agents, consultants, brokers or representatives in connection with its dealings with governmental entities, departments, officials and employees. These arrangements may not be employed to do anything prohibited by this Code. The commissions or fees payable to a third party must be reasonable in amount for the services rendered in accordance with local business practices.

### ***Antitrust Matters***

Antitrust laws are intended to protect and promote free and fair competition. These laws apply to all U.S. and some non-U.S. transactions by businesses in the United States. Therefore, you should not exchange information with competitors regarding prices or market share and should refrain from exchanging other information that could be construed as a violation of antitrust laws.

A violation of antitrust laws is a serious offense. In the United States, it is not uncommon for individuals to be criminally prosecuted. You should report to the Legal Department any instance in which these discussions are initiated by other companies.

### **Agreements with Competitors**

Formal or informal agreements with competitors that seek to limit or restrict competition in some way are often illegal. Unlawful agreements include those that seek to fix or control prices; allocate products, markets or territories; or boycott certain customers or suppliers. To ensure compliance with antitrust law, discussions with competitors regarding any of these

potential agreements is a violation of Company policy and will subject you to corrective action, as well as the potential for criminal prosecution.

#### Agreements with Customers

Certain understandings between the Company and a customer are also considered anti-competitive and illegal. These include agreements that fix resale prices or that result in discriminatory pricing among customers for the same product. These types of restrictive understandings must not be discussed or agreed to with a customer.

#### Trade Association Activity

Contact with competitors at trade shows or trade association meetings is unavoidable. However, these contacts are not immune from antitrust law. Consequently, contact with competitors necessitated by these meetings should be as limited as possible and kept strictly to the subjects on the agenda for the meeting. In addition, employee participants in trade associations should consult with the Legal Department regarding any proposed association activity that would have a potential effect on competition, such as the development of product standards or an industry code of practice.

#### Boycotts

It is illegal under U.S. anti-boycott regulations to enter into an agreement to refuse to deal with potential or actual customers or suppliers, or otherwise to engage in or support restrictive international trade practices or boycotts. The Company will not agree to a contract, document or oral request containing language that could be interpreted as an attempt by any country to enforce a boycott. Even providing information may constitute a violation of U.S. law, which requires that boycott requests be immediately reported to the government even when a response is not provided, and calls for the imposition of fines and other penalties on U.S. parent companies in cases where their non-U.S. subsidiaries violate U.S. anti-boycott regulations. Therefore, any request for information or receipt of boycott-related documentation must be immediately reported to the Legal Department.

### **VIII. EXPORT CONTROLS**

It is our policy to fully comply with all applicable U.S. export, customs and trade control laws and regulations, licensing requirements, relevant non-U.S. laws and international sanctions. The Company is responsible for customs, export and trade control compliance, and will establish licensing and compliance programs. To the extent feasible, the Company is expected to perform due diligence and know its customer in any business transaction. Any investigation or inquiry by a U.S. governmental organization regarding alleged trade control violations or irregularities should be immediately reported to the Legal Department prior to taking any action. The Legal Department is available to answer any questions regarding customers, export licensing and trade controls and should be consulted as the need arises.

## **IX. PUBLIC COMPANY REPORTING**

As a public company, it is of critical importance that our filings and submissions with the Securities and Exchange Commission (the “Commission”) be accurate and timely. Depending on your position with the Company, you may be called upon to provide necessary information to assure that the Company’s public reports and documents filed with the Commission and in other public communications by the Company are full, fair and understandable. The Company expects you to provide prompt, accurate answers to inquiries related to the Company’s public disclosure requirements.

## **X. RECORD MANAGEMENT**

The Legal Department has company-wide responsibility for developing, administering and coordinating the record management program, and issuing retention guidelines for specific types of documents. Records should be maintained to comply with applicable statutory, regulatory or contractual requirements, as well as pursuant to prudent business practices. The Company prohibits any employee or director from altering, destroying, mutilating or concealing a record, document, or other object, or attempt to do so, with the intent to impair the object’s integrity or availability for use in an official proceeding. You can contact the Legal Department for specific information on the Company’s Document Retention Policy.

## **XI. RECORDING TRANSACTIONS**

We have established and maintain a high standard of accuracy and completeness in our financial records. These records serve as the basis for managing our business, for measuring and fulfilling its obligations to employees, customers, suppliers and others, and for compliance with tax and financial reporting requirements.

In the preparation and maintenance of records, employees must make and keep books, invoices, records and accounts that, in reasonable detail, accurately and fairly reflect the financial transactions of the Company. These records must comply with generally accepted accounting practices and principles. Accounting entries must be promptly and accurately recorded and properly documented. No accounting entry may intentionally distort or disguise the true nature of any transaction. The Company prohibits the establishment of any undisclosed or unrecorded funds or assets for any purpose.

Each employee must maintain accurate records of transactions, time reports, expense accounts and other company records. You are prohibited from making a representation, either in a document or in oral communication, which is other than fully accurate. The Company has devised, implemented and maintained a system of internal accounting controls that is sufficient to provide reasonable assurances that financial transactions are properly authorized, executed and recorded. You must comply with this system and report any incident that you believe is in violation of the requirements of this system.

See “Reporting Violations” in Section XV below for specific information on reporting violations of this Code, as well as issues regarding accounting, internal accounting controls or auditing matters, harassment or discrimination, or any other issue.

## **XII. USE AND PROTECTION OF COMPANY ASSETS**

Company assets are to be used only for the legitimate business purposes of the Company and its subsidiaries and only by authorized employees or their designees. This includes both tangible and intangible assets.

Some examples of tangible assets include office equipment, such as telephones, copy machines, computers, furniture, supplies and production equipment. Some examples of intangible assets include intellectual property, such as pending patent information, trade secrets or other confidential or proprietary information (whether in printed or electronic form).

You are responsible for ensuring that appropriate measures are taken to assure that Company assets are properly protected. In addition, you should take appropriate measures to ensure the efficient use of Company assets, since theft, carelessness and waste have a direct impact on the Company's profitability.

### ***Use of Email and the Internet***

The use of the Company's electronic mail (e-mail) system and connection to the Internet should be used primarily for Company business. All employees, officers and directors should use the same care, caution and etiquette in sending e-mail messages as in all other written or oral business communications. The Company will not tolerate discriminatory, offensive, defamatory, pornographic and other similar type of messages or materials sent by email or accessed through the Internet. Since the e-mail system and Internet connection are Company resources, the Company reserves the right at any time to monitor and inspect without notice, all electronic communications on personal computers owned by the Company or computers on the premises used in the business of the Company.

### ***Computer Software***

Most computer software is protected by copyrights. The Company's policy is to respect copyrights and to strictly adhere to all relevant laws and regulations regarding the use and copying of computer software. Therefore, the unauthorized duplication of software, whether or not owned by the Company, is prohibited, even if the duplication is for business purposes, is of limited duration, or is otherwise accepted local practice.

## **XIII. DELEGATION OF AUTHORITY**

See the Company's Policy on Transaction Processing and Signature Authority Policy that is accessible on CRUS.net.

## **XIV. MONITORING AND ENFORCEMENT**

You should take steps to ensure compliance with the standards set forth in this Code in the operations of the Company. If there are instances of non-compliance, employees and directors shall ensure timely and reasonable remediation of any non-compliance, whether found by internal or external monitors, and ensure that adequate steps are taken to prevent the

recurrence and/or occurrence in the Company. In instances where the proper and ethical course of action is unclear, you should seek counsel from the Legal Department.

All managerial personnel are responsible for the necessary distribution of this Code to ensure employee knowledge and compliance on a worldwide basis.

## **XV. REPORTING VIOLATIONS**

You are encouraged to submit any concerns or complaints anonymously and/or confidentially regarding violations of this Code, accounting, internal accounting controls or auditing matters, harassment, discrimination, or any other issue to the Company's toll-free hotline in the U.S. at 866-659-4926, or to Stephanie Lucie in the Legal Department, who will treat these submissions confidentially. The values and responsibilities outlined in this Code are important to the Company and must be taken seriously by all employees. As a result, violations of these values and responsibilities will not be tolerated.

You are encouraged to speak to your supervisor, manager or other appropriate personnel when in doubt about the best course of action in a particular situation. You are also encouraged to promptly report information or knowledge of any act in violation of the laws, rules, regulations or this Code, or which you believe to be unethical.

In no event will any action be taken against you for making a complaint or reporting, in good faith, known or suspected violations of Company policy. You will not lose your job for refusing an order you reasonably believe would violate the provisions of this Code, and any retaliation against you is prohibited.

Any report by an employee or director will be kept confidential to the extent permitted by law and regulation and the Company's ability to address these concerns. In certain instances, the identity of the reporting employee, officer or director may be provided to those persons involved in the investigation.

## **XVI. CORRECTIVE ACTIONS**

Violations of the rules and policies of conduct set forth in this Code may result in one or more of the following corrective actions, as appropriate:

- a warning;
- a reprimand (noted in the employee's personnel record);
- probation;
- demotion;
- temporary suspension;
- required reimbursement of losses or damages;

- termination of employment; and/or
- referral for criminal prosecution or civil action.

Corrective actions may apply to any supervisor who directs or approves any prohibited actions, or has knowledge of them and does not promptly correct them.

As stated above, reporting possible violations of this Code will not result in retaliation against the employee for making this report.

Conduct that violates this Code may also violate federal or state laws or laws outside the United States. These violations may subject you to prosecution, imprisonment and fines. The Company may also be subject to prosecution and fines for your conduct.

## **XVII. AMENDMENT, MODIFICATION, WAIVER AND TERMINATION OF PROVISIONS OF THE CODE**

We reserve the right to amend, modify, waive or terminate these rules and policies at any time for any reason.

We will disclose any waivers of this Code made to executive officers or directors of the Company, subject to the provisions of the Securities Exchange Act of 1934, as amended, and the rules thereunder, and the applicable rules of the National Association of Securities Dealers, Inc. Waivers of this Code can only be granted by the Board of Directors or the Governance and Nominating Committee of the Board of Directors.



## LIST OF REGISTRANT'S SUBSIDIARIES

<b>ENTITY</b>	<b>STATE/COUNTRY OF INCORPORATION</b>
<b>Cirrus Logic International Ltd.</b>	<b>Bermuda</b>
<b>Cirrus International Holdings, Inc.</b>	<b>Delaware</b>
<b>Cirrus Logic KK</b>	<b>Japan</b>
<b>Cirrus Logic Korea Co. Ltd.</b>	<b>South Korea</b>
<b>Cirrus Logic (UK) Ltd.</b>	<b>United Kingdom</b>
<b>Cirrus Logic Software India, Pvt. Ltd.</b>	<b>India</b>
<b>eMicro Corporation</b>	<b>Delaware</b>
<b>Crystal Semiconductor Corporation</b>	<b>Delaware</b>
<b>LuxSonor Semiconductors, Inc.</b>	<b>California</b>
<b>Pacific Communication Sciences, Inc.</b>	<b>Delaware</b>
<b>ShareWave, Inc.</b>	<b>Delaware</b>
<b>Stream Machine Company</b>	<b>California</b>



**CONSENT OF INDEPENDENT AUDITORS**

We consent to the incorporation by reference in the Registration Statements (Form S-8 No. 33-31697, 33-37409, 33-43914, 33-47453, 33-53990, 33-60464, 33-71862, 33-83148, 33-65495, 333-16417, 333-42693, 333-72573, 333-88347, 333-88345, 333-89243, 333-48490, 333-63674, 333-67322, 333-71046, 333-71366, 333-74804, and 333-101119) pertaining to the following: the Cirrus Logic, Inc. Amended 1987 Stock Option Plan; the Cirrus Logic, Inc. Third Amended and Restated 1989 Employee Stock Purchase Plan; the Cirrus Logic, Inc. Amended 1990 Directors' Stock Option Plan; the DST Stock Option Plan; the Cirrus Logic, Inc. Amended 1991 Non-qualified Stock Option Plan; the Cirrus Logic, Inc. Amended 1996 Stock Plan; the Crystal Semiconductor Corporation 1987 Incentive Stock Option Plan; the Acumos Incorporated 1989 Stock Option Plan; the Pacific Communications Sciences, Inc. 1987 Stock Option Plan; the PicoPower Technology Inc. Amended 1992 Stock Option Plan; the AudioLogic, Inc. 1992 Stock Option Plan; the Peak Audio, Inc. 2001 Stock Plan; the ShareWave, Inc. 1996 Flexible Stock Incentive Plan; the LuxSonor Semiconductors, Inc. 1995 Stock Option Plan; the Stream Machine Company 1996 Stock Option Plan, 2001 Stock Plan, and Nonstatutory Stock Option Grants; and the Cirrus Logic, Inc. 2002 Stock Option Plan, and in the Registration Statements (Form S-3 No. 333-32964 and 333-86561) of Cirrus Logic, Inc. and in the related Prospectuses of our report dated April 25, 2003, with respect to the consolidated financial statements of Cirrus Logic, Inc. included in this Annual Report (Form 10-K) for the year ended March 29, 2003.

/s/ Ernst & Young LLP

Austin, Texas  
June 12, 2003



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

In connection with the Form 10-K of Cirrus Logic, Inc. (the "Company") for the year ended March 29, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David D. French, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David D. French

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David D. French  
Chief Executive Officer  
Date: June 12, 2003



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

In connection with the Form 10-K of Cirrus Logic, Inc. (the "Company") for the year ended March 29, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven D. Overly, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Steven D. Overly

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Steven D. Overly  
Chief Financial Officer  
Date: June 12, 2003