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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 24, 2005

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

For the Transition Period from ___________to ___________

Commission File Number 0-17795

CIRRUS LOGIC, INC.

(Exact name of registrant as specified in its charter)

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

2901 Via Fortuna Austin, Texas 78746
(Address of principal executive offices) (Zip Code)

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

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

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

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

The number of shares of the registrant's common stock, $0.001 par value, outstanding as of October 21, 2005 was 86,393,054.

CIRRUS LOGIC, INC.

FORM 10-Q QUARTERLY REPORT

QUARTERLY PERIOD ENDED SEPTEMBER 24, 2005

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Part I.

ITEM 1. FINANCIAL STATEMENTS

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

	September 24, 2005 (unaudited)	March 26, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 112,347	$ 79,235
Restricted investments	5,755	7,898
Marketable securities	92,163	91,559
Accounts receivable, net	21,579	18,593
Inventories	17,014	26,649
Other current assets	6,287	6,600
Total current assets	255,145	230,534
Long-term marketable securities	14,869	1,021
Property and equipment, net	14,329	17,572
Intangibles, net	4,090	10,786
Other assets	11,372	2,897
Total assets	$ 299,805	$ 262,810
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 15,181	$ 10,546
Accrued salaries and benefits	6,756	8,164
Other accrued liabilities	14,072	10,799
Deferred income on shipments to distributors	6,807	7,935
Income taxes payable	8,526	9,276
Total current liabilities	51,342	46,720
Long-term restructuring accrual	4,807	3,678
Other long-term obligations	10,062	8,675
Stockholders' equity:		
Capital stock	879,560	875,687
Accumulated deficit	(644,919)	(670,797)
Accumulated other comprehensive loss	(1,047)	(1,153)
Total stockholders' equity	233,594	203,737
Total liabilities and stockholders' equity	$ 299,805	$ 262,810

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

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

	Three Months Ended		Six Months Ended	
	September 24, 2005	September 25, 2004	September 24, 2005	September 25, 2004
Net sales	$ 50,461	$ 51,332	$ 103,283	$ 110,449
Cost of sales	23,596	28,404	49,118	55,848
Gross Margin	26,865	22,928	54,165	54,601
Operating expenses:				
Research and development	10,630	21,212	24,281	43,338
Selling, general and administrative	15,765	12,818	30,066	25,113
Restructuring and other, net	2,311	4,148	2,311	5,871
Litigation settlement, net	—	344	(24,758)	543
Total operating expenses	28,706	38,522	31,900	74,865
Income (loss) from operations	(1,841)	(15,594)	22,265	(20,264)
Realized gain on marketable securities	—	—	388	669
Interest income (expense), net	1,684	604	2,820	1,300
Other income (expense), net	(109)	(5)	(128)	(71)
Income (loss) before income taxes	(266)	(14,995)	25,345	(18,366)
Provision (benefit) for income taxes	(167)	66	(533)	90
Net income (loss)	$ (99)	$ (15,061)	$ 25,878	$ (18,456)
Basic income (loss) per share:	$ —	$ (0.18)	$ 0.30	$ (0.22)
Diluted income (loss) per share:	$ —	$ (0.18)	$ 0.30	$ (0.22)
Basic weighted average common shares outstanding:	85,804	84,671	85,517	84,545
Diluted weighted average common shares outstanding:	85,804	84,671	87,051	84,545

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

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

	Six Months Ended	
	September 24, 2005	September 25, 2004
Cash flows from operating activities:		
Net income (loss)	$ 25,878	$ (18,456)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,841	12,222
Gain on marketable securities	(388)	(669)
Non-cash portion of real estate buyout		(4,343)
Impairment of assets	—	3,151
Gain on video product line asset sale	(827)	—
Other non-cash charges (benefits)	(487)	(127)
Net change in operating assets and liabilities	13,480	(10,540)
Net cash provided by (used in) operating activities	42,497	(18,762)
Cash flows from investing activities:		
Additions to property, equipment and software	(277)	(2,844)
Investments in technology	(581)	(2,426)
Purchase of marketable securities	(99,406)	(52,810)
Proceeds from sale and maturity of marketable securities	85,407	16,275
(Increase) decrease in restricted investments	2,143	975
(Increase) decrease in deposits and other assets	(529)	202
Net cash provided by (used in) investing activities	(13,243)	(40,628)
Cash flows from financing activities:		
Issuance of common stock, net of issuance costs	3,858	1,547
Net cash provided by financing activities	3,858	1,547
Net increase (decrease) in cash and cash equivalents	33,112	(57,843)
Cash and cash equivalents at beginning of period	79,235	157,893
Cash and cash equivalents at end of period	$ 112,347	$ 100,050
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:		
Investment in Magnum Semiconductor	$ 7,947	$ —

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

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

1. Basis of Presentation

The consolidated condensed financial statements have been prepared by Cirrus Logic, Inc. ("we," "us," "our," or the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The accompanying unaudited consolidated condensed financial statements do not include complete footnotes and financial presentations. As a result, these financial statements should be read along with the audited consolidated financial statements and notes thereto for the year ended March 26, 2005, included in our 2005 Annual Report on Form 10-K. In our opinion, the financial statements reflect all adjustments, including normal recurring adjustments, necessary for a fair presentation of the financial position, operating results and cash flows, for those periods presented. The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect reported assets, liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates and assumptions. Moreover, the results of operations for the interim periods presented are not necessarily indicative of the results that may be expected for the entire year. We maintain a web site at *www.cirrus.com,* which makes available free of charge, our recent annual report and other filings with the SEC.

Certain income statement reclassifications have been made to the fiscal year 2005 financial statements to conform to the fiscal year 2006 presentation. We now report the amortization of acquired intangibles as a component of our research and development expenses. These reclassifications had no effect on the results of operations or stockholders' equity.

2. Recently Issued Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 123R ("SFAS No. 123R") *"Share-Based Payment,"* which supersedes Accounting Principle Board Opinion (APB) No. 25, *"Accounting for Stock Issued to Employees;" SFAS No. 123, "Accounting for Stock Based Compensation;"* and related implementation guidance. Under this pronouncement, stock based compensation to employees is required to be recognized as a charge to the statement of operations and such charge is to be measured according to the fair value of the stock options. In the absence of an observable market price for the stock awards, the fair value of the stock options would be based upon a valuation methodology that takes into consideration various factors, including the exercise price of the option, the expected term of the option, the current price of the underlying shares, the volatility of the company's stock and the risk free interest rate. Our current policy is not to expense share based compensation; however, we do disclose the affect of this item as currently required by SFAS 123. SFAS No. 123R allows for either prospective recognition of compensation expense or retrospective recognition, which may be back to the original issuance of SFAS No. 123 or only to interim periods in the year of adoption. The company is currently evaluating these transition methods and the impact this pronouncement will have on us. The pronouncement will now be effective for fiscal years beginning after June 15, 2005. For Cirrus Logic, we will adopt this pronouncement beginning in fiscal year 2007, which begins March 26, 2006.

On March 29, 2005, the Securities and Exchange Commission, or SEC, issued Staff Accounting Bulletin ("SAB") No. 107, which provides guidance on the interaction between SFAS No. 123(R) and certain SEC rules and regulations. SAB No. 107 provides guidance that may simplify some of SFAS No. 123(R)'s implementation challenges and enhance the information that investors receive.

3. Accounts Receivable

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

	September 24, 2005	March 26, 2005
	(unaudited)	
Gross accounts receivable	$ 22,088	$ 19,114
Allowance for doubtful accounts	(509)	(521)
	$ 21,579	$ 18,593

4. Inventories

Inventories are comprised of the following (in thousands):

	September 24, 2005	March 26, 2005
	(unaudited)	
Work in process	$ 10,403	$ 20,142
Finished goods	6,611	6,507
	$ 17,014	$ 26,649

5. Assets Held for Sale

On April 25, 2005, we announced our intentions to sell the assets associated with our digital video product line. On May 24, 2005, we signed a definitive agreement to sell our digital video product assets to Magnum Semiconductor Inc. ("Magnum"), a privately held company formed by an investment group led by Investcorp Technology Ventures II, L.P. On June 30, 2005, we completed the sale of assets from our digital video product line to Magnum. By divesting the video product assets, we are able to focus on our core analog, mixed-signal and embedded IC product lines for audio and industrial markets. The transaction was structured as an asset sale. As consideration for the sale of these assets, we received a minority equity ownership position in Magnum Semiconductor of approximately $7.9 million and we have recorded our ownership position under the cost method of accounting. The investment was primarily comprised of $1.0 million from current assets, $0.8 from property and equipment and $5.1 million from long-term assets and $0.3 million in associated current liabilities.

We recognized a net gain on the sale of assets to Magnum Semiconductor during the second fiscal quarter of approximately $0.8 million, which was recorded as a component of *"restructuring and other, net."* Further, the company recorded, as a component of the net gain, a contingent payment of $0.5 million related to the closing conditions of the agreement. We also have recorded, as of September 24, 2005, a receivable of $0.9 million from Magnum in *"Other current assets"* and a payable to Magnum of $0.5 million in *"Other current liabilities."* Both the receivable and payable are associated with a Services Agreement entered into by the entities at the time of the sale.

During the second fiscal quarter, after the completion of the video product line asset sale to Magnum Semiconductor, we sold the remaining video product inventory to Magnum Semiconductor for $1.9 million, which was approximately 5 percent above our cost. They have paid for almost all of the inventory shipped to them as of September 24, 2005.

6. Marketable Securities

Our investments that have original maturities greater than ninety days have been classified as available-for-sale securities in accordance with Statement of Financial Accounting Standards No. 115 ("SFAS 115"), *"Accounting for Certain Investments in Debt and Equity Securities."* Marketable securities are categorized on the Balance Sheet as Restricted Investments, Marketable Securities and Long-term Marketable Securities, as appropriate.

The following table is a summary of available-for-sale securities as of September 24, 2005 (in thousands, unaudited):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value (Net Carrying Amount)
Corporate securities — U.S.	$ 64,872	$ 8	$ (173)	$ 64,707
U.S. Government securities	48,192	—	(112)	48,080
Agency discount notes	—			—
Total debt securities	113,064	8	(285)	112,787
Marketable equity securities	—	—	—	—
	$113,064	$ 8	$ (285)	$ 112,787

The following table is a summary of available-for-sale securities as of March 26, 2005 (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value (Net Carrying Amount)
Corporate securities — U.S.	$ 53,873	$ —	$ (257)	$ 53,616
Corporate securities — non — U.S.	—	—	—	—
U.S. Government securities	34,204	—	(85)	34,119
Agency discount notes	8,152	—	(41)	8,111
Commercial paper	4,632	—	—	4,632
Total debt securities	100,861	—	(383)	100,478
Marketable equity securities	—	—	—	—
	$100,861	$ —	$ (383)	$ 100,478

The cost and estimated fair value of available-for-sale investments by contractual maturity were as follows:

	September 24, 2005		March 26, 2005	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within 1 year	$ 98,137	$ 97,918	$ 99,830	$ 99,457
After 1 year through 2 years	14,927	14,869	1,031	1,021
After 2 years	—	—	—	—
Total debt securities	113,064	112,787	100,861	100,478
Marketable equity securities	—	—	—	—
	$ 113,064	$ 112,787	$ 100,861	$ 100,478

During the first quarter of fiscal years 2006 and 2005, we realized gains of $0.4 million and $0.7 million, respectively, related to the sale of our investment in Silicon Laboratories, Inc., which resulted from their acquisition of Cygnal Integrated Products, Inc. in which we had an investment. We received $0.4 million and $1.2 million, net of commissions for the sale of securities in the first quarter fiscal years 2006 and 2005, respectively. The gain recorded in the first quarter of fiscal year 2006 related to a contingent payment made by Silicon Laboratories to the shareholders of Cygnal Integrated Products in April 2005. We did not have a cost basis in the contingent payment, as the payment was dependent on certain milestones being completed.

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7. Intangibles, net

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

	As of September 24, 2005		As of March 26, 2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core Technology	$ 1,390	$ (682)	$ 8,290	$ (6,521)
License Agreements	440	(216)	1,940	(1,504)
Existing Technology	2,730	(2,413)	43,430	(38,723)
Trademarks	320	(320)	320	(313)
Technology Licenses	11,905	(9,064)	12,615	(8,748)
	$ 16,785	$ (12,695)	$ 66,595	$ (55,809)

Amortization expense for all intangibles in the second quarter of fiscal years 2006 and 2005 was $0.8 million and $4.3 million, respectively. Amortization expense for all intangibles in the first six months of fiscal years 2006 and 2005 was $2.2 million and $8.8 million, respectively. The decrease in the gross carrying amount of $49.1 million and accumulated amortization of $44.5 million resulted primarily from certain intangibles being classified as assets held for sale in connection with the sale of certain assets to Magnum Semiconductor. For further detail, see Note 5, *"Assets Held for Sale."*

The following table details the estimated aggregate amortization expense for all of our intangibles as of September 24, 2005 for the remainder of fiscal year 2006 and for each of the five succeeding fiscal years (in thousands):

For the remainder of the year ended March 25, 2006	$1,104
For the year ended March 31, 2007	1,429
For the year ended March 29, 2008	969
For the year ended March 28, 2009	287
For the year ended March 27, 2010	248
For the year ended March 26, 2011	18

8. Income Taxes

We realized a net income tax benefit of $167 thousand for the second quarter of fiscal year 2006 and $533 thousand for the first six months of fiscal year 2006. The benefit for both periods results primarily from the expiration of the statute of limitations for years in which certain foreign income tax exposures for transfer pricing issues had existed. Our tax expense for the first six months of fiscal year 2006 was less than the Federal statutory rate, as we were able to utilize a portion of our deferred tax asset on which there had been placed a full valuation allowance. We incurred income tax expense of $66 thousand for the second quarter of fiscal 2005 and $90 thousand in the first six months of fiscal 2005. The income tax expense for both of those periods consisted primarily of foreign withholding and foreign income taxes.

Our income taxes payable balance is comprised primarily of tax contingencies that are recorded to address exposures involving tax positions we have taken in various foreign jurisdictions. These exposures result from the varying application of statutes, rules, regulations, and interpretations. Our tax contingencies are established based on experiences and judgments about audit exposures in the taxing jurisdictions in which we operate. Our tax contingencies primarily relate to transfer pricing positions we have taken in a variety of countries. The ultimate resolution of these matters may be materially greater or less than the amount that we have accrued.

We account for income taxes in accordance with Statement of Financial Accounting Standard No. 109 ("SFAS 109"), *"Accounting for Income Taxes,"* which provides for the recognition of deferred tax assets if

realization of such assets is more likely than not. We have provided a valuation allowance equal to our net deferred tax assets due to uncertainties regarding their realization. We evaluate the realizability of our deferred tax assets on a quarterly basis.

9. Restructuring and Other, Net

During the second quarter and first six months of fiscal year 2006, we recorded a restructuring charge of $3.1 million in operating expenses for severance and facility related items associated with workforce reductions related to the divestiture of the video product line assets. This action affected approximately 10 individuals worldwide and resulted in a charge of approximately $0.4 million. In connection with the video product line asset sale, we ceased using the leased office space in our Fremont, California location. Accordingly, we recorded a restructuring charge of $2.7 million related to the exit from this facility. Partially offsetting the restructuring charge was $0.8 million related to the gain on the video product line asset sale. See Note 5 for further detail on this transaction.

During the second quarter of fiscal year 2005, we recorded a charge of $1.5 million in operating expenses for severance and facility related items associated with our August 25, 2004 workforce reductions, which affected approximately 55 individuals worldwide. In connection with this reduction, we recorded an impairment charge of $3.2 million for the abandonment of certain computer aided design ("CAD") software tools that will no longer be utilized. These charges were partially offset by the release of a $0.5 million accrual as a result of a lease buyout that we completed in the second quarter of fiscal year 2005. The cost for this leased facility had been partially accrued when a portion of the space was vacated during our fiscal year 2002 workforce reductions. During the first quarter of fiscal 2005, the remaining cost was accrued when the leased space was completely vacated. The total buyout amount of $4.3 million was less than the recorded liability and hence, we recognized the benefit from this transaction against the restructuring expenses incurred during the second quarter of fiscal year 2005.

In addition to the transactions recorded during the second quarter of fiscal 2005, as mentioned above, during the first quarter of fiscal year 2005, we recorded a charge of $1.6 million for the remainder of the facility consolidation activities related to our workforce reduction that began in the fourth quarter of fiscal year 2004. Additionally, we recorded an impairment charge of $0.1 million for property and equipment associated with our Pune, India facility closure.

As of September 24, 2005, we had a remaining accrual from all of our past restructurings of $7.5 million, primarily related to net lease expenses that will be paid over their respective lease terms through fiscal year 2013, along with other anticipated lease termination costs. We have classified $4.8 million of this restructuring accrual as long term.

The following table details the changes in all of our restructuring accruals during the first six months ended September 24, 2005:

Description	March 26, 2005	Charges to P&L	Cash Payments	September 24, 2005
Severance — fiscal year 2006	$ —	$ 411	$ (231)	$ 180
Severance — fiscal year 2005	323	—	(323)	—
Facilities abandonment — fiscal year 2006	—	2,727	—	2,727
Facilities abandonment — fiscal year 2004	4,531	—	(451)	4,080
Facilities abandonment — fiscal year 2003	200	—	—	200
Facilities abandonment — fiscal year 2002	55	—	(92)	(37)
Facilities abandonment — fiscal year 1999	397	—	—	397
	$ 5,506	$ 3,138	$ (1,097)	$ 7,547

10. Deferred Income on Shipments to Distributors

Sales made to domestic distributors are deferred until the final sale to the end customer has occurred. In general, these distributor agreements allow for certain rights of return, price adjustments, and price

protection. As of September 24, 2005, we had $6.8 million of deferred income, which includes approximately $1.2 million related to shipments during fiscal year 2005.

11. Earnings Per Share

Basic net income (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 net income (loss) per share is calculated by dividing net income (loss) by the basic weighted average number of common shares used in the basic net income (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.

Incremental weighted average common shares attributable to the assumed exercise of outstanding options of 2,033,000 shares as of September 24, 2005 were excluded from the computation of diluted net income (loss) per share because the effect would be anti-dilutive due to our loss position during the second quarter of fiscal year 2006. Incremental weighted average common shares attributable to the assumed exercise of outstanding options of 1,320,000 and 1,683,000 shares as of September 25, 2004 were excluded from the computation of diluted net income (loss) per share because the effect would be anti-dilutive due to our loss position during the second quarter and first six months of fiscal year 2005, respectively. The weighted average outstanding options excluded from our diluted calculation for the second quarter of fiscal years 2006 and 2005 were 4,846,000 and 7,757,000, respectively, as the exercise price exceeded the average market price during the respective periods. The weighted average outstanding options excluded from our diluted calculation for the first six months of fiscal years 2006 and 2005 were 6,564,000 and 7,390,000, respectively, as the exercise price exceeded the average market price during the respective periods.

12. Legal Matters

Fujitsu

On October 19, 2001, we filed a lawsuit against Fujitsu, Ltd. (“Fujitsu”) in the United States District Court for the Northern District of California. We asserted claims for breach of contract and anticipatory breach of contract and we sought damages in excess of $46 million. The basis for our complaint was Fujitsu’s refusal to pay for hard disk drive-related chips delivered to and accepted by it in fiscal year 2002. On December 17, 2001, Fujitsu filed an answer and a counterclaim. Fujitsu alleged claims for breach of contract, breach of warranty, quantum meruit/equitable indemnity and declaratory relief. The basis for Fujitsu’s counterclaim was the allegation that certain chips that we sold to Fujitsu were defective and allegedly caused Fujitsu’s hard disk drives to fail.

On December 5, 2003, for reasons related to the potential lack of jurisdiction for certain claims in federal district court, Fujitsu filed a complaint in California state court alleging claims substantially similar to those filed against us in district court and, in addition, alleging fraud and other related claims against Amkor and Sumitomo. On December 23, 2003, we filed a cross-complaint in California state court alleging the same claims against Fujitsu as we alleged in federal district court and further alleging fraud and other related claims against Amkor and Sumitomo based on their alleged knowledge that the molding compound used in the packaging materials sold to us was defective.

On April 28, 2005, before the rescheduled trial date, Cirrus Logic, Fujitsu, Amkor, Sumitomo, and Cirrus Logic’s insurance carriers reached an agreement through an arbitration process to settle and release all pending claims related to the alleged failure of certain semiconductor integrated circuits sold by Cirrus Logic to Fujitsu. These releases included releases between our insurance carriers and us for any claims related to the litigation with Fujitsu. As part of the settlement, Fujitsu is to receive $45 million from Sumitomo, $40 million from Amkor, and $40 million from Cirrus Logic’s insurance carriers. Fujitsu agreed to pay us a lump sum in the amount of $25 million. The final settlement documents were completed on June 10, 2005, and payment was received on June 16, 2005. Part of the $25 million received from the settlement represented a recovery of bad debt expense recorded in fiscal year 2002 of approximately $46.8 million. The $25 million received was partially offset by approximately $0.2 million in outside fees

associated with this transaction. The net amount was recorded as a separate line item as a component of operating expenses during the first fiscal quarter of 2006.

St. Paul Fire and Marine Insurance Company

On June 9, 2004, we filed a complaint for declaratory relief against St. Paul Fire and Marine Insurance Co. ("St. Paul") in the United States District Court, Northern District of California. Specifically, the complaint seeks a judicial determination and declaration that the Technology Commercial General Liability Protection ("CGL") coverage under an insurance policy issued to us by St. Paul provides Cirrus Logic with insurance coverage for Cirrus Logic's defense of claims brought by Fujitsu in the previously referenced matter. Pursuant to our CGL policy, the costs and expenses associated with defending our lawsuit against Fujitsu would be covered, but would not reduce the policy coverage limits. On August 23, 2004, St. Paul answered the complaint, denying that it was obligated to defend us under the CGL policy.

Based on the settlement and releases agreed to by the insurance carriers as set forth in the Fujitsu matter, we believe this matter has been resolved between Cirrus Logic and St. Paul. On August 2, 2005, the district court dismissed the case without prejudice.

Silvaco Data Systems

On December 8, 2004, Silvaco Data Systems ("Silvaco") filed suit against us, and others, alleging misappropriation of trade secrets, conversion, unfair business practices, and civil conspiracy. Silvaco's complaint stems from a trade secret dispute between Silvaco and a software vendor, Circuit Semantics, Inc., who supplies us with certain software design tools. Silvaco alleges that our use of Circuit Semantic's design tools infringes upon Silvaco's trade secrets and that we are liable for compensatory damages in the sum of $10 million. Silvaco has not indicated how it will substantiate this amount of damages and we are unable to reasonably estimate the amount of damages, if any.

On January 25, 2005, we answered Silvaco's complaint by denying any wrong-doing. In addition, we filed a cross-complaint against Silvaco alleging breach of contract relating to Silvaco's refusal to provide certain technology that would enable us to use certain unrelated software tools.

We intend to defend the lawsuit vigorously. In addition, Circuit Semantics is obligated to defend and indemnify us pursuant to our license agreement with them for the software. However, we cannot predict the ultimate outcome of this litigation and we are unable to estimate any potential liability we may incur.

Facilities Under Operating Lease Agreements

We lease our facilities under operating lease agreements. Our principal facility, located in Austin, Texas, is 197,000 square feet and houses our headquarters and engineering facility. The lease agreement for this facility includes a potential obligation to enter into another lease agreement for a period of 10 years for an additional 64,000 square feet in a new building to be built on property next to our current facility. This obligation was contingent upon construction beginning on the new facility before November 10, 2004. On September 14, 2004, our landlord provided us notice that it had elected to construct the new building. However, as of October 25, 2005, actual construction on the new building had not commenced. On November 12, 2004, we filed suit against our landlord in the state district court of Travis County, Texas seeking declaratory relief as to our obligations under the current operating lease agreement. Specifically, we seek a declaration that we have no obligation to lease an additional two floors of space because the landlord did not commence construction of the new facility before November 10, 2004. Trial has been set in this matter for December 2005.

In the event that the court determines that the owner of the property has strictly complied with all notices and conditions precedent to entering a new lease, we estimate that the yearly minimum future lease payments could be as much as $1.7 million. In addition, we may be required to provide a cash deposit of $200,000 as well as segregating and restricting an additional $3 million of our available cash balance in the form of a letter of credit. If we are required to enter into a new lease, we are unable to estimate when these potential obligations would begin because it is uncertain when construction will actually be completed.

Other Claims

From time to time, other various claims, charges and litigation are asserted or commenced against us arising from, or related to, contractual matters, intellectual property, employment disputes, as well as other issues. Frequent claims and litigation involving these types of issues are not uncommon in the IC industry. As to any of these claims or litigation, we cannot predict the ultimate outcome with certainty.

13. Comprehensive Income

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

	Three Months Ended		Six Months Ended	
	September 24, 2005	September 25, 2004	September 24, 2005	September 25, 2004
Net income (loss)	$ (99)	$ (15,061)	$ 25,878	$ (18,456)
Adjustments to arrive at comprehensive income (loss):				
Change in unrealized gain (loss) on marketable securities	(21)	(11)	106	(40)
Realized gain on marketable equity securities	—	—	—	(669)
Change in unrealized loss on foreign currency translation adjustments	—	1	—	1
Comprehensive income (loss)	$ (120)	$ (15,071)	$ 25,984	$ (19,164)

14. Stock-Based Compensation

The following table illustrates the effect on net income (loss) and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, *"Accounting for Stock-Based Compensation"* (in thousands, except per share data, unaudited):

	Three Months Ended		Six Months Ended	
	September 24, 2005	September 25, 2004	September 24, 2005	September 25, 2004
Net income (loss) as reported	$ (99)	$ (15,061)	$ 25,878	$ (18,456)
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effects	—	15	15	307
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of tax related effects	(1,325)	(2,611)	(3,587)	(6,482)
Proforma net income (loss)	$ (1,424)	$ (17,657)	$ 22,306	$ (24,631)
Basic and diluted net income (loss) per share as reported	$ —	$ (0.18)	$ 0.30	$ (0.22)
Proforma basic and diluted net income (loss) per share	$ (0.02)	$ (0.21)	$ 0.26	$ (0.29)

As a result of recent regulatory guidance, including SEC Staff Accounting Bulletin No. 107 ("SAB No. 107") and in anticipation of the impending effective date of FASB Statement of Financial Accounting Standards No. 123(R), ("SFAS No. 123(R)"), *Share-Based Payment* , we reevaluated the assumptions we use to estimate the value of employee stock options and shares issued under our employee stock purchase plan, beginning with stock options granted and shares issued under our employee stock purchase plan in our second quarter of fiscal year 2006. Our management determined that the use of implied volatility is expected to be more reflective of market conditions and, therefore, can reasonably be expected to be a better indicator of expected volatility than historical volatility.

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For the purpose of the pro forma calculation, the fair value of stock options granted under our stock option plans and the fair value of shares issued under our employee stock purchase plan have been estimated with the following assumptions:

	September 24, 2005	September 25, 2004
Employee Option Plans:		
Expected stock price volatility	40.6%	96.8%

15. Segment Information

We are a premier supplier of high-precision analog and mixed-signal integrated circuits (“ICs”) for a broad range of consumer and industrial markets. We develop and market 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. Our chief executive officer (“CEO”) has been identified as the chief operating decision maker as defined by SFAS 131.

Our CEO receives and uses enterprise-wide financial information to assess financial performance and allocate resources, rather than detailed information at a product line level. Additionally, our product lines have similar characteristics and customers. They share operations support functions such as sales, public relations, production and logistics, in addition to the general and administrative functions of human resources, legal, finance and information technology. Accordingly, we operate in one operating segment.

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

	Three Months Ended		Six Months Ended	
	September 24, 2005	September 25, 2004	September 24, 2005	September 25, 2004
Mixed-signal audio products	$ 26,320	$ 24,005	$ 49,699	$ 53,204
Embedded products	13,913	11,782	26,461	25,428
Industrial products	8,076	11,229	15,842	20,507
Subtotal	48,309	47,016	92,002	99,139
Video products	2,152	4,316	11,281	11,310
	$ 50,461	$ 51,332	$ 103,283	$ 110,449

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

The following discussion should be read along with the unaudited consolidated condensed financial statements and notes thereto included in Item 1 of this Quarterly Report, as well as the audited consolidated financial statements and notes thereto and Management’s Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended March 26, 2005, contained in our 2005 Annual Report on Form 10-K. This Management’s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements regarding future events and our future results that are based on current expectations, estimates, forecasts and projections and the beliefs and assumptions of our management including, without limitation, our expectations regarding third quarter sales, gross margins, combined research and development and selling, general and administrative expenses and restructuring activities and charges. Words such as “expect,” “anticipate,” “target,” “project,” “believe,” “goals,” “estimates,” “intend” and 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 below under the subheading *"Factors That May Affect Future Operating Results"* and elsewhere in this report. We undertake no obligation to revise or update publicly any forward-looking statement for any reason. Readers should carefully review the risk factors described in *"Factors That May Affect Future Operating Results"* below, as well as in the documents filed by us with the Securities and Exchange Commission, specifically the most recent reports on Form 10-K, 10-Q and 8-K, each as it may be amended from time to time.

Overview

Cirrus Logic ("we," "us," "our," or the "Company") develops high-precision analog and mixed-signal ICs for a broad range of consumer and industrial markets. Building on our diverse analog mixed-signal patent portfolio, we deliver highly optimized products for consumer and commercial audio, automotive entertainment and industrial applications. We also provide complete system reference designs based on our technology that facilitate our customers' ability to bring products to market in a timely and cost-effective manner.

During the first six months of fiscal year 2006, we saw a decrease in revenue from the comparable period of fiscal year 2005. Although our top-line revenue was down, primarily due to the sale of our video product line, we saw improved operating results, which enabled us to report overall positive results of $25.9 million in income during the current fiscal year. A large contribution to our income results was a $25 million payment received during the first fiscal quarter associated with the settlement of the Fujitsu litigation. Nevertheless, we have reduced our spending activities during the past fiscal year to position us to return to profitability this fiscal year.

On April 25, 2005, we announced our intentions to divest our digital video product assets. On May 24, 2005, we signed a definitive agreement to sell our digital video product assets to Magnum Semiconductor Inc. ("Magnum"), a privately held company formed by an investment group led by Investcorp and August Capital. On June 30, 2005, we signed an agreement with Magnum to sell our video product assets to them for a non-controlling interest initially valued at $7.9 million. By divesting the video product assets, we are focusing on our core analog, mixed-signal and embedded IC product lines for audio and industrial markets. With this focus, we are poised to leverage our intellectual property and high-margin analog product lines to drive growth and profitability. We recorded a charge of approximately $2.7 million related to the exit from that facility. We do not anticipate recording additional charges for this facility at this time.

Critical Accounting Policies

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

- We maintain allowances for doubtful accounts for estimated losses resulting from the inability or failure of our customers to make required payments. We regularly evaluate our allowance for doubtful accounts based upon the age of the receivable, our ongoing customer relations, as well as any disputes with the customer. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required, which could have a material effect on our operating results and financial position. Additionally, we may maintain an allowance for doubtful accounts for estimated losses on receivables from customers with whom we are involved in litigation.
- Inventories are recorded at the lower of cost or market, with cost being determined on a first-in, first-out basis. We write down inventories to net realizable value based on forecasted demand, management judgment and the age of inventory. Actual demand and market conditions may be different from those projected by management, which could have a material effect on our operating results and financial position.
- We evaluate the recoverability of property and equipment and intangible assets in accordance with Statement of Financial Accounting Standard No. 144 ("SFAS 144"), *"Accounting for the Impairment or Disposal of Long-Lived Assets."* We test for impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. An impairment loss is recognized in the event the carrying value of these assets exceeds the fair value of the applicable assets. Impairment evaluations involve management estimates of asset useful lives and future cash flows. Actual useful lives and cash flows could be different from those estimated by management, which could have a material effect on our operating results and financial position.
- Restructuring charges for workforce reductions and facilities consolidations reflected in the accompanying financial statements were accrued based upon specific plans established by management, in accordance with Emerging Issues Task Force No. 94-3 ("EITF 94-3"), *"Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)"* or SFAS 146, " *Accounting for Costs Associated with Exit or Disposal Activities* " depending upon the time of the restructuring activity. We use an estimated borrowing rate as the discount rate for all of our restructuring accruals made under SFAS 146. Our facilities consolidation accruals 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 might receive once we sublet the facility, after considering current and projected market conditions. Changes in these estimates could result in an adjustment to our restructuring accruals in a future quarter, which could have a material effect on our operating results and financial position.
- Our income taxes payable balance is comprised primarily of tax contingencies that are recorded to address exposures involving tax positions we have taken in various foreign jurisdictions. These exposures result from the varying application of statutes, rules, regulations and interpretations. Our tax contingencies are established based on experiences and judgments about audit exposures in the taxing jurisdictions in which we operate. Our tax contingencies relate primarily to transfer pricing positions we have taken in a variety of countries. 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. We regularly evaluate current information available to us to determine whether any accruals should be made based on the status of the case, the results of the discovery process and other factors. If we ultimately determine that an accrual should be made for a legal matter, this accrual could have a material effect on our operating results and financial position and the ultimate outcome may be materially different than our estimate.

Results of Operations

The following table summarizes the results of our operations for the second quarter and first six months of fiscal years 2006 and 2005 as a percentage of net sales. All percentage amounts were calculated using the underlying data in thousands, unaudited:

	Three Months Ended		Six Months Ended	
	September 24, 2005	September 25, 2004	September 24, 2005	September 25, 2004
Mixed-signal audio products	52%	47%	48%	48%
Embedded products	28%	23%	26%	23%
Industrial products	16%	22%	15%	19%
Video products	4%	8%	11%	10%
Net sales	100%	100%	100%	100%
Cost of sales	47%	55%	48%	51%
Gross Margin	53%	45%	52%	49%
Research and development	21%	41%	24%	39%
Selling, general and administrative	31%	25%	29%	23%
Restructuring and other costs	5%	8%	2%	5%
Litigation settlement, net	0%	1%	(24%)	0%
Total operating expenses	57%	75%	31%	67%
Income (loss) from operations	(4%)	(30%)	21%	(18%)
Realized gain on marketable securities	0%	0%	0%	1%
Interest income (expense), net	3%	1%	3%	1%
Other income (expense), net	0%	0%	0%	0%
Income (loss) before income taxes	(1%)	(29%)	24%	(16%)
Provision (benefit) for income taxes	(1%)	0%	(1%)	1%
Net income (loss)	0%	(29%)	25%	(17%)

Net Sales

Net sales for the second quarter of fiscal year 2006 decreased $0.9 million to $50.5 million from $51.3 million from the second quarter of fiscal year 2005. Net sales from mixed-signal audio products increased $2.3 million, or 10 percent, due primarily to an increase in demand for our audio analog to digital converters, as production ramped for a new product introduced within the last year. The embedded product net sales increased $2.1 million, or 18 percent, during the second quarter of fiscal year 2006 from the comparable quarter of the prior fiscal year due to higher sales related to our CobraNet™ technology and a product that has ramped in the last year. Net sales from our Industrial products were down $3.2 million, or 28 percent, in the second quarter of fiscal year 2006 due to a decrease in demand for seismic products as our customers ramped up on our longer product life components during fiscal year 2005 that did not reoccur in fiscal year 2006. Further, as we exit our video product line, we saw a decrease in sales of $2.2 million, or 50 percent, as we exited this product line. On June 30, 2005, we sold our digital video product assets to Magnum Semiconductor.

Net sales for the first six months of fiscal year 2006 decreased $7.1 million to $103.3 million from $110.4 million from the first six months of fiscal year 2005. The embedded product net sales increased $1.0 million, or 4 percent, during the first six months of fiscal year 2006 from the comparable period of the prior fiscal year due to higher sales related to our CobraNet technology, a product that has ramped in the last year. Conversely, net sales from mixed-signal audio products decreased $3.5 million, or 7 percent, due primarily to a stabilization of market demand for our audio digital to analog converters. We also saw a decrease in our net sales from our Industrial products by $4.7 million, or 23 percent, in the first six months of fiscal year 2006 due to a decrease in demand for seismic products as our customers ramped up on our longer product life components during fiscal year 2005 that did not reoccur in fiscal year 2006. Our video product line, which we exited this fiscal year, saw virtually no change from the first six months, as both years revenue was $11.3 million.

We expect our total sales in the third quarter of fiscal year 2006 to be between $45 million and $49 million.

Export sales, principally to Asia, including sales to U.S.-based customers with manufacturing plants overseas, were 65 percent and 63 percent of net sales during the second quarter of fiscal years 2006 and 2005, respectively. Export sales were 68 percent and 67 percent of total sales in the first six months of fiscal years 2006 and 2005, respectively. Our sales are denominated primarily in U.S. dollars. As a result, we have not entered into foreign currency forward exchange and option contracts.

We had no direct customers that accounted for more than 10 percent of our sales. We had one distributor that represented 25 percent and 24 percent of our sales for the second quarter and first six months of fiscal year 2006, respectively. The same distributor represented 30 percent and 27 percent of our sales for the second quarter and first six months of fiscal year 2005, respectively. Sales to our distributors represented 65 percent and 63 percent of our fiscal year 2006 and 2005 net sales, respectively.

Gross Margin

Gross margin was 53.2 percent in the second quarter of fiscal year 2006, up from 44.7 percent in the second quarter of fiscal year 2005. During the second quarter of fiscal year 2006, we realized a net benefit of $0.3 million from the sale of previously written down inventory, which favorably impacted gross margins by 0.7 percent. Our gross margins in the second quarter of fiscal year 2005 were largely impacted by a charge of $3.9 million, a 7.6 percent impact to gross margin, to write down gross inventory to an estimation of net realizable value.

Gross margin was 52.4 percent in the first six months of fiscal year 2006, up from 49.4 percent in the comparable period of fiscal year 2005. The largest driver of the increase in gross margin was due to the absence of the inventory charges to write down gross inventory by $3.9 million during the second quarter of fiscal year 2006.

Research and Development Expense

Research and development expense for the second quarter of fiscal year 2006 of $10.6 million decreased $10.6 million from $21.2 million in the second quarter of fiscal year 2005. This decrease was primarily due to reduced salaries and benefits costs as our headcount was reduced from the prior year as we exited from the video product line coupled with lower outside product development expenses and reduced amortization of acquired intangibles during the second quarter of fiscal year 2006.

Research and development expense for the first six months of fiscal year 2006 of $24.3 million decreased $19.0 million from $43.3 million in the comparable period of fiscal year 2005. This decrease was primarily due to reduced salaries and benefits costs as our headcount was reduced from the prior year as we exited from the video product line coupled with lower outside product development expenses and the absence of $6.8 million in amortization of acquired intangibles, most of which were sold to Magnum Semiconductor.

Selling, General and Administrative Expense

Selling, general and administrative expense in the second quarter of fiscal year 2006 of $15.8 million increased by $3.0 million from $12.8 million in the second quarter of fiscal year 2005. This increase was due primarily to the additional charge taken to facilities expense for a loss contingency on sub-leases entered into during the previous quarter, as we sub-leased excess space for less than our current rent obligations, partially offset by reduced expenses associated with our exit from the video product line.

Selling, general and administrative expense in the first six months of fiscal year 2006 of $30.1 million increased by $5.0 million from $25.1 million in the comparable period of fiscal year 2005. This increase was due primarily to the $4.4 million charge taken to facilities expense for a loss contingency on sub-leases entered into during the fiscal year, as we sub-leased excess space for less than our current rent obligations

coupled with costs to sell the video product line. These charges were partially offset by reduced employee related expenses associated with our exit from the video product line.

We expect our combined research and development and selling, general and administrative expenses to be between $20 million and $22 million for our third fiscal quarter.

Restructuring and Other, Net

During the second quarter and first six months of fiscal year 2006, we recorded a restructuring charge of $3.1 million in operating expenses for severance and facility related items associated with our workforce reductions related to the divestiture of the video product line. Partially offsetting this charge was approximately $0.8 million related to a gain that was recognized in the second fiscal quarter for the sale of the video product line assets to Magnum Semiconductor.

During the second quarter of fiscal year 2005, we recorded a charge of $4.6 million in operating expenses for severance activity during the quarter and for an abandonment of computer aided design (“CAD”) software tools that will not be used due to our workforce reductions. This charge was partially offset by a $0.5 million favorable outcome related to a long-term lease buyout during the quarter. In addition to the transactions recorded during the second quarter of fiscal year 2005, as mentioned above, during the first quarter of fiscal year 2005, we recorded a charge of $1.6 million for the remainder of the facility consolidation activities related to our workforce reduction that began in the fourth quarter of fiscal year 2004. Additionally, we recorded an impairment charge of $0.1 million for property and equipment associated with our Pune, India facility closure.

Realized Gain on Marketable Equity Securities

During the first quarter of fiscal years 2006 and 2005, we realized gains of $0.4 million and $0.7 million, respectively, related to the sale of Silicon Laboratories, Inc. common stock. We received the common stock in connection with Silicon Laboratories’ acquisition of Cygnal Integrated Products, Inc., a company in which we had an investment. We received $0.4 million and $1.2 million, net of commissions in the first quarters of fiscal years 2006 and 2005, respectively, for the sale of these securities.

Interest Income

Interest income was $1.7 million and $0.6 million for the second quarter of fiscal years 2006 and 2005, respectively. Interest income was $2.8 million and $1.3 million for the first six months of fiscal years 2006 and 2005, respectively. The increases of $1.1 million and $1.5 million, respectively, was primarily due to increased cash and cash equivalent balances on which interest was earned coupled with higher rates of return on our investment portfolio.

Income Taxes

We realized a net income tax benefit of $167 thousand for the second quarter of fiscal year 2006 and $533 thousand for the first six months of fiscal year 2006. The benefit for both periods stems primarily from the expiration of the statute of limitations for years in which certain foreign income tax exposures for transfer pricing issues had existed. Our tax expense for the first six months of fiscal year 2006 was less than the Federal statutory rate, as we were able to utilize a portion of our deferred tax asset on which there had been placed a full valuation allowance. We incurred income tax expense of $66 thousand for the second quarter of fiscal 2005 and $90 thousand the first six months of fiscal year 2005. The income tax expense for both of those periods consisted primarily of foreign withholding and foreign income taxes.

In fiscal years 2006 and 2005, we 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.

Liquidity and Capital Resources

We generated approximately $42.5 million of cash and cash equivalents in our operating activities during the first six months of fiscal year 2006, primarily due to a $25 million settlement of our Fujitsu litigation coupled with a large decrease in our inventory of $8.7 million and an increase in our accounts payable and other accrued liabilities of $9.3 million. In the comparable period of fiscal year 2005, we used approximately $18.8 million of cash and cash equivalents in our operating activities primarily due to the increase in our inventory and accounts receivable of $13.0 million and $8.9 million, respectively. Further, during the second quarter of fiscal year 2005, we completed a $4.3 million buyout of a multi-year lease for one of our domestic facilities.

During the first six months of fiscal year 2006, we used approximately $13.2 million in cash from investing activities, primarily related to the purchase of certain available-for-sale securities of $99.4 million, partially offset by the sale and maturity of certain available-for-sale securities of $85.4 million along with purchases of property and equipment and technology licenses totaling $0.9 million. We used approximately $40.6 million of cash from investing activities during the first six months of fiscal year 2005, primarily related to the purchase of certain available-for-sale securities of $52.8 million and purchases of property and equipment and technology licenses totaling $5.3 million, partially offset by the sale and maturity of certain available-for-sale securities of $16.3 million.

We generated $3.9 million and $1.5 million in cash from financing activities during the six months of fiscal year 2006 and fiscal year 2005, respectively, due to the issuance of common stock in connection with option exercises and our employee stock purchase plan.

As of September 24, 2005, we have restricted cash of $5.8 million, which primarily secures certain obligations under our lease agreement for the headquarters and engineering facility in Austin, Texas.

We have not paid cash dividends on our common stock and currently intend to continue our policy of retaining any earnings for reinvestment in our business. Although we cannot assure that we will be able to generate cash in the future, we anticipate that our existing capital resources and cash flow generated from future operations will enable us to maintain our current level of operations for at least the next 12 months.

Recently Issued Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123R *"Share-Based Payment,"* which supersedes Accounting Principle Board Opinion (APB) No. 25, *"Accounting for Stock Issued to Employees;" SFAS No. 123, "Accounting for Stock Based Compensation;"* and related implementation guidance. Under this pronouncement, stock based compensation to employees is required to be recognized as a charge to the statement of operations and such charge is to be measured according to the fair value of the stock options. In the absence of an observable market price for the stock awards, the fair value of the stock options would be based upon a valuation methodology that takes into consideration various factors, including the exercise price of the option, the expected term of the option, the current price of the underlying shares, the volatility of the company's stock and the risk free interest rate. Our current policy is not to expense share based compensation; however, we do disclose the affect of this item as currently required by SFAS 123. SFAS No. 123R allows for either prospective recognition of compensation expense or retrospective recognition, which may be back to the original issuance of SFAS No. 123 or only to interim periods in the year of adoption. The company is currently evaluating these transition methods and the impact this pronouncement will have on us. The pronouncement will now be effective for fiscal years beginning after June 15, 2005. For Cirrus Logic, we will adopt this pronouncement beginning in fiscal year 2007, which begins March 26, 2006.

On March 29, 2005, the Securities and Exchange Commission, or SEC, issued Staff Accounting Bulletin ("SAB") No. 107, which provides guidance on the interaction between SFAS No. 123(R) and certain SEC rules and regulations. SAB No. 107 provides guidance that may simplify some of SFAS No. 123(R)'s implementation challenges and enhance the information that investors receive.

Risk Factors Affecting Our Business and Prospects

Our business faces significant risks. The risk factors set forth below may not be the only risks that we face. Additional risks that we are not aware of yet or that currently are not significant may adversely affect our business operations. You should read the following cautionary statements in conjunction with the factors discussed elsewhere in this and other of Cirrus Logic's filings with the Securities and Exchange Commission ("SEC"). These cautionary statements are intended to highlight certain factors that may affect the financial condition and results of operations of Cirrus Logic and are not meant to be an exhaustive discussion of risks that apply to companies such as ours.

Our results may be affected by the fluctuation in sales in the consumer entertainment market.

As we continue to sell products in the consumer entertainment market, we are more likely to be affected by seasonality in the sales of our products. In particular, a significant portion of consumer electronics products are sold worldwide during the back-to-school and fourth calendar quarter holiday seasons. As a result, we expect stronger sales of ICs into the consumer entertainment market to occur in our second and third fiscal quarters in anticipation of these seasons.

Further, a decline in consumer confidence and consumer spending relating to economic conditions, terrorist attacks, armed conflicts, oil prices, global health conditions and/or the political stability of countries in which we operate or sell into could have a material adverse effect on our business.

The highly cyclical and volatile nature of our industry may affect our operating results.

We are subject to business cycles and it is difficult to predict the timing, length, or volatility of these cycles. During downturns, customers usually reduce purchases, delay delivery of products, shorten lead times on orders and/or cancel orders. During upturns, our third party suppliers and contract manufacturers may have capacity or supply constraints that result in higher costs, longer lead times, and/or an inability to meet customer demand. These business cycles may create pressure on our sales, gross margins and/or operating results.

We cannot assure that any future downturn or upturn will not have a material adverse effect on our business and results of operations. We cannot assure that we will not experience substantial period-to-period fluctuations in revenue due to general semiconductor industry conditions or other factors.

Our failure to develop and introduce new products on a timely basis could harm our operating results.

Our success depends upon our ability to develop new products for new and existing markets, to introduce these products in a timely and cost-effective 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 these new products. 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 that 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 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 analog and high-precision analog and mixed-signal circuits, the limited number of qualified integrated circuit designers and the limited effectiveness of computer-aided design systems in the design of analog and mixed-signal ICs, we cannot assure that we will be able to successfully develop and introduce new products on a timely basis.

Our products are complex and could contain defects, which could result in material costs to 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 increases 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:

- a material recall and replacement costs for product warranty and support,
- payments to our customer related to such recall claims as a result of various industry or business practices, or in order to maintain good customer relationships,
- an adverse impact to our customer relationships by the occurrence of significant defects,
- a delay in recognition or loss of revenues, loss of market share, or failure to achieve market acceptance, and
- a diversion of the attention of our engineering personnel from our product development efforts.

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. In particular, the sale of systems and components into certain applications for the automotive industry involves a high degree of risk that such claims may be made.

While we believe that we are reasonably insured against these risks and contractually limit our financial exposure, we cannot assure that we will be able to obtain insurance in amounts or of sufficient scope to provide us with adequate coverage against all potential liability.

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 results. 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,

- 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.

Shifts in industry-wide capacity and our practice of purchasing our products based on sales forecasts may result in significant fluctuations in our quarterly and annual operating results.

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 may order wafers and build inventory in advance of receiving purchase orders. 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 generally order our products through non-cancelable purchase 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 our customers cancel orders that are placed, we may experience increased inventory levels.

Due to the product manufacturing cycle characteristic of IC 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 and charges to gross margin may occur due to lower of cost or market accounting, excess inventory, and inventory obsolescence.

Strong competition in the semiconductor market may harm our business.

The IC industry is intensely competitive and is frequently characterized by rapid technological change, price erosion and design, technological obsolescence, and a push towards IC component integration. Because of shortened product life cycles and even shorter design-in cycles in a number of the markets that we serve, 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 our net sales, gross margins and operating results would be adversely affected. Additionally, further component integration could eliminate the need for our products.

We compete in a number of fragmented markets. Our principal competitors in these markets include AKM Semiconductors, Analog Devices, Freescale Semiconductor, LSI Logic, Maxim, Micronas, Samsung Semiconductor, Texas Instruments, and Wolfson Microelectronics, 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. We also expect intensified competition from emerging companies and from customers who develop their own IC 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 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 may be subject to average selling prices that decline over short time periods. If we are unable to increase our volumes, introduce new or enhanced products with higher selling prices or reduce our costs, our business and operating results could be harmed.

Historically in the semiconductor industry, average selling prices of products have decreased over time. If the average selling price of any of our products declines and we are unable to increase our unit volumes, introduce new or enhanced products with higher margins and/or 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 procurement lead times, 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 could harm our operating results.

Export sales, principally to Asia, include sales to U.S-based customers with manufacturing plants overseas and accounted for 65 percent and 63 percent of our net sales in the second quarter of fiscal years 2006 and 2005, 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 stability and global health conditions, especially 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 affect future orders and harm our results of operations. Our international sales operations involve a number of other risks, including:

- unexpected changes in government regulatory requirements,
- changes to countries' banking and credit 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, our competitive position may 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. Alternatively, decreases in the value of the dollar will increase the relative cost of our and our vendors' operations that are based overseas. We cannot assure that regulatory, political and other factors will not adversely affect our operations in the future or require us to modify our current business practices.

Our international operations subject our business to additional political and economic risks that could have an adverse impact on our business.

In addition to export sales constituting a majority of our net sales, we maintain significant international operations, including design, sales and technical support personnel. We are also using contract manufacturers in Asia for foundry, assembly and test operations. Expansion into this region has required and will continue to require significant management attention and resources. 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 adequately protect our U.S. intellectual property, patent, trademarks, copyrights, know-how and other proprietary rights,
- global health conditions and potential natural disasters,
- political and economic instability in international regions,
- international currency controls and exchange rate fluctuations,
- additional vulnerability from terrorist groups targeting American interests abroad, and

- legal uncertainty regarding liability and compliance with foreign laws and regulatory requirements.

Further, as we have completed the outsourcing of our test operations, we have become more dependent on third-party subcontractors in Asia for the assembly, packaging and testing of our products. 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 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.

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. For example, start-up companies generally offer larger equity grants to attract individuals from more established companies. The loss of the services of 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 will be required to expense share-based payments to our employees, and we may have a significant material adverse charge to our financial statements.

On December 16, 2004, the FASB issued SFAS No. 123(R), *"Share-Based Payment,"* which is a revision of SFAS No. 123 and supersedes APB Opinion No. 25. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be valued at fair value on the date of grant, and to be expensed over the applicable vesting period. Pro forma disclosure of the income statement effects of share-based payments is no longer an alternative. SFAS No. 123(R), as amended, is effective for all stock-based awards granted in fiscal years beginning after June 15, 2005. In addition, companies must also recognize compensation expense related to any awards that are not fully vested as of the effective date. Compensation expense for the unvested awards will be measured based on the fair value of the awards previously calculated in developing the pro forma disclosures in accordance with the provisions of SFAS No. 123.

We may be faced with increased risk due to the volatility of our stock price and our ability to predict the exercise patterns of our stock. In general, we view our volatility as greater than our competitors. We feel that our adoption of this standard may adversely impact our earnings disproportionately from our competitors. Further, we may have difficulty in predicting our operating profitability due to our stock option expense, which could affect future earnings or guidance.

Our adoption of this accounting standard may result in a material adverse impact on our consolidated financial statements. We will be required to expense stock options and other share-based payments to employees and directors, which will require us to record a significant charge to earnings. We are currently evaluating our stock-based compensation programs to determine what our alternatives may be to reduce this charge in the future. If we choose not to issue stock options at the levels we have in the past, we believe we may face a more difficult time in attracting and retaining employees.

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

We rely on independent foundries to manufacture all of our wafers. Our reliance on these foundries involves 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,
- the inability to secure necessary capacity to meet customer demand,

- the 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.

In order to secure additional foundry capacity, we may enter into contracts that commit us to purchase specified quantities of 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.

Because we are dependent on our subcontractors in Asia to perform key manufacturing functions for us, we are subject to political and economic risks that could disrupt the assembly, packaging, or testing of our products.

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 changes in current tax laws, political instability, global health conditions, 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.

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

In the second quarter of fiscal years 2006 and 2005, sales to our distributors accounted for 63 percent and 65 percent, respectively, of our total 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 external sales representatives and to develop additional channels for the distribution and sale of our products. The inability to successfully manage these relationships could adversely affect our business.

We may acquire other companies or technologies, which may create additional risks associated with our ability to and successfully integrate them into our business.

We 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 risks, including, but not limited to:

- the potential disruption of our ongoing business,
- unexpected costs or incurring unknown liabilities,
- the diversion of management resources from other business concerns while 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,
- adverse effects associated with 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.

The divestiture of our video business subjects us to additional risks and uncertainties that could adversely affect our business.

On May 24, 2005, we signed a definitive agreement to sell the assets associated with our digital video product assets to Magnum Semiconductor Inc., a privately held company formed by an investment group led by Investcorp Technology Ventures II, L.P. On June 30, 2005, we consummated the transaction.

Despite completing the transaction, there can be no assurance that we will be able to achieve profitability, strengthen our core operations, compete more effectively in existing or new markets, or actually increase stockholder value after this divestiture transaction. Further, divestiture transactions, such as this one, may entail risks and uncertainties in addition to those which may result from the divestiture-related changes in our business operations, including, but not limited to, extraordinary transaction costs, unknown indemnification liabilities and unforeseen administrative complications, any of which could result in reduced revenues, increased charges or post-transaction administrative costs, or could otherwise have a material adverse effect on our business, financial condition or results of operations.

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 knowledge. We work actively to foster continuing technological innovation to maintain and protect our competitive position. We cannot assure 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. In addition, the laws of some foreign countries may not protect our intellectual property as well as the laws of the United States. See *"Legal Proceedings."*

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

The IC industry is characterized by frequent litigation regarding patent and other intellectual property rights. We may find it necessary to initiate a lawsuit to assert our patent or other intellectual property rights. These legal proceedings could be expensive, take significant time and divert management's attention from other business concerns. We cannot assure that we will ultimately be successful in any lawsuit, nor can we assure that any patent owned by us will not be invalidated, circumvented, or challenged. We cannot assure 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 IC 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. 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 management, technical and financial 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 our products do not conform to or support certain industry standards, our products may not be accepted by the market and our business may be harmed.

Generally, our products comprise only a part of our customers' product. All components of such devices must comply with industry standards in order to operate efficiently together. We depend on companies that provide other components of the devices to support prevailing industry standards. Many of these companies are significantly larger and more influential in affecting industry standards than we are. Some industry standards may not be widely adopted or implemented uniformly and competing standards may emerge that may be preferred by our customers or end users. If larger companies do not support the same industry standards that we do, or if competing standards emerge, market acceptance of our products could be adversely affected and our business would be harmed.

The emergence of new industry standards could render our products incompatible with products developed by other suppliers. As a result, we could be required to invest significant time and effort and to incur significant expense to redesign our products to ensure compliance with relevant standards. If our products are not in compliance with prevailing industry standards for a significant period of time, we could miss opportunities to achieve crucial design wins. We may not be successful in developing or using new technologies or in developing new products or product enhancements that achieve market acceptance. Our pursuit of necessary technological advances may require substantial time and expense.

If we are unable to make continued substantial investments in research and development, we may not be able to develop and sell new products, which would likely harm our future operating results.

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, customers or suppliers,
- changes in financial estimates by securities analysts or our failure to perform as anticipated by the analysts,
- announcements regarding technological innovations or new products by us or our competitors,
- announcements by us of significant acquisitions, strategic partnerships, joint ventures, or capital commitment,
- announcements by us of significant divestitures or sale of certain assets or intellectual property,
- litigation arising out of a wide variety of matters, including, among others, employment matters and intellectual property matters,
- departure of key personnel,
- single significant shareholders selling for reasons unrelated to the business,
- general assumptions made by securities analysts,
- general conditions in the IC industry, and
- general market conditions and interest rates.

We have provisions in our charter, and are subject to certain provisions of Delaware law, which could prevent, delay or impede a change of control of our company. These provisions could affect the market price of our stock.

Certain provisions of our Certificate of Incorporation and 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:

- the inability 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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks associated with interest rates on our debt securities and currency movements on non-U.S. dollar denominated assets and liabilities. We assess these risks on a regular basis and have established policies to protect against the adverse effects of these and other potential exposures. There have been no significant changes in our interest or foreign exchange risk since we filed our latest Form 10-K on May 27, 2005.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure control and procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based upon that evaluation, the CEO and the Chief Financial Officer ("CFO") concluded that, as of September 24, 2005, our disclosure controls and procedures were effective at providing reasonable assurance that information required to be disclosed by us in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and that our controls and procedures are effective in timely alerting them to material information required to be included in this report.

Changes in control over financial reporting

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

PART II

ITEM 1. LEGAL PROCEEDINGS

Fujitsu

On October 19, 2001, we filed a lawsuit against Fujitsu, Ltd. ("Fujitsu") in the United States District Court for the Northern District of California. We asserted claims for breach of contract and anticipatory breach of contract and we sought damages in excess of $46 million. The basis for our complaint was Fujitsu's refusal to pay for hard disk drive-related chips delivered to and accepted by it in fiscal year 2002. On December 17, 2001, Fujitsu filed an answer and a counterclaim. Fujitsu alleged claims for breach of

contract, breach of warranty, quantum meruit/equitable indemnity and declaratory relief. The basis for Fujitsu's counterclaim was the allegation that certain chips that we sold to Fujitsu were defective and allegedly caused Fujitsu's hard disk drives to fail.

On December 5, 2003, for reasons related to the potential lack of jurisdiction for certain claims in federal district court, Fujitsu filed a complaint in California state court alleging claims substantially similar to those filed against us in district court and, in addition, alleging fraud and other related claims against Amkor and Sumitomo. On December 23, 2003, we filed a cross-complaint in California state court alleging the same claims against Fujitsu as we alleged in federal district court and further alleging fraud and other related claims against Amkor and Sumitomo based on their alleged knowledge that the molding compound used in the packaging materials sold to us was defective.

On April 28, 2005, before the rescheduled trial date, Cirrus Logic, Fujitsu, Amkor, Sumitomo, and Cirrus Logic's insurance carriers reached an agreement through an arbitration process to settle and release all pending claims related to the alleged failure of certain semiconductor integrated circuits sold by Cirrus Logic to Fujitsu. These releases included releases between our insurance carriers and us for any claims related to the litigation with Fujitsu. As part of the settlement, Fujitsu is to receive $45 million from Sumitomo, $40 million from Amkor, and $40 million from Cirrus Logic's insurance carriers. Fujitsu agreed to pay us a lump sum in the amount of $25 million. The final settlement documents were completed on June 10, 2005, and payment was received on June 16, 2005. Part of the $25 million received from the settlement represented a recovery of bad debt expense recorded in fiscal year 2002 of approximately $46.8 million. The $25 million received was partially offset by approximately $0.2 million in outside fees associated with this transaction. The net amount was recorded as a separate line item as a component of operating expenses during the first fiscal quarter of 2006.

St. Paul Fire and Marine Insurance Company

On June 9, 2004, we filed a complaint for declaratory relief against St. Paul Fire and Marine Insurance Co. ("St. Paul") in the United States District Court, Northern District of California. Specifically, the complaint seeks a judicial determination and declaration that the Technology Commercial General Liability Protection ("CGL") coverage under an insurance policy issued to us by St. Paul provides Cirrus Logic with insurance coverage for Cirrus Logic's defense of claims brought by Fujitsu in the previously referenced matter. Pursuant to our CGL policy, the costs and expenses associated with defending our lawsuit against Fujitsu would be covered, but would not reduce the policy coverage limits. On August 23, 2004, St. Paul answered the complaint, denying that it was obligated to defend us under the CGL policy.

Based on the settlement and releases agreed to by the insurance carriers as set forth in the Fujitsu matter, we believe this matter has been resolved between Cirrus Logic and St. Paul. On August 2, 2005, the district court dismissed the case without prejudice.

Silvaco Data Systems

On December 8, 2004, Silvaco Data Systems ("Silvaco") filed suit against us, and others, alleging misappropriation of trade secrets, conversion, unfair business practices, and civil conspiracy. Silvaco's complaint stems from a trade secret dispute between Silvaco and a software vendor, Circuit Semantics, Inc., who supplies us with certain software design tools. Silvaco alleges that our use of Circuit Semantic's design tools infringes upon Silvaco's trade secrets and that we are liable for compensatory damages in the sum of $10 million. Silvaco has not indicated how it will substantiate this amount of damages and we are unable to reasonably estimate the amount of damages, if any.

On January 25, 2005, we answered Silvaco's complaint by denying any wrong-doing. In addition, we filed a cross-complaint against Silvaco alleging breach of contract relating to Silvaco's refusal to provide certain technology that would enable us to use certain unrelated software tools.

We intend to defend the lawsuit vigorously. In addition, Circuit Semantics is obligated to defend and indemnify us pursuant to our license agreement with them for the software. However, we cannot predict the ultimate outcome of this litigation and we are unable to estimate any potential liability we may incur.

Facilities Under Operating Lease Agreements

We lease our facilities under operating lease agreements. Our principal facility, located in Austin, Texas, is 197,000 square feet and houses our headquarters and engineering facility. The lease agreement for this facility includes a potential obligation to enter into another lease agreement for a period of 10 years for an additional 64,000 square feet in a new building to be built on property next to our current facility. This obligation was contingent upon construction beginning on the new facility before November 10, 2004. On September 14, 2004, our landlord provided us notice that it had elected to construct the new building. However, as of October 25, 2005, actual construction on the new building had not commenced. On November 12, 2004, we filed suit against our landlord in the state district court of Travis County, Texas seeking declaratory relief as to our obligations under the current operating lease agreement. Specifically, we seek a declaration that we have no obligation to lease an additional two floors of space because the landlord did not commence construction of the new facility before November 10, 2004. Trial has been set in this matter for December 2005.

In the event that the court determines that the owner of the property has strictly complied with all notices and conditions precedent to entering a new lease, we estimate that the yearly minimum future lease payments could be as much as $1.7 million. In addition, we may be required to provide a cash deposit of $200,000 as well as segregating and restricting an additional $3 million of our available cash balance in the form of a letter of credit. If we are required to enter into a new lease, we are unable to estimate when these potential obligations would begin because it is uncertain when construction will actually be completed.

Other Claims

From time to time, other various claims, charges and litigation are asserted or commenced against us arising from, or related to, contractual matters, intellectual property, employment disputes, as well as other issues. Frequent claims and litigation involving these types of issues are not uncommon in the IC industry. As to any of these claims or litigation, we cannot predict the ultimate outcome with certainty.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the annual meeting of stockholders of Cirrus Logic, Inc. on July 28, 2005, the stockholders voted on three proposals as reflected below:

- The first matter voted on was a proposal to elect seven directors for one-year terms. All director nominees were elected. The following table sets forth the votes in this election:

David D. French	For:	80,616,631	Withheld:	1,032,984
D. James Guzy	For:	72,230,418	Withheld:	9,419,197
Michael L. Hackworth	For:	68,372,501	Withheld:	13,277,114
Suhas S. Patil	For:	72,230,825	Withheld:	9,418,790
Walden C. Rhines	For:	77,939,318	Withheld:	3,710,297
William D. Sherman	For:	77,917,629	Withheld:	3,731,986
Robert H. Smith	For:	77,758,257	Withheld:	3,891,358

There were no broker non-votes.

- The second matter voted on was a proposal to ratify the appointment of Ernst & Young LLP as independent auditors. The following table sets forth the votes in this election:

For: 81,023,771 Against: 507,241 Abstain: 118,603

There were no broker non-votes.

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ITEM 6. EXHIBITS

(a) Exhibits.

3.1	Certificate of Incorporation of Registrant, filed with the Delaware Secretary of State on August 26, 1998. (1)
3.2	Agreement and Plan of Merger, filed with the Delaware Secretary of State on February 17, 1999. (1)
3.3	Certificate of Designation of Rights, Preferences and Privileges of Series A Preferred Stock, filed with the Delaware Secretary of State on March 30, 1999. (1)
3.4	Amended and Restated Bylaws of Registrant. (2)
3.5	Certificate of Elimination dated May 26, 2005 (8)
10.1 +	Amended 1987 Stock Option Plan. (3)
10.2 +*	1989 Employee Stock Purchase Plan, as amended on September 21, 2005.
10.3 +	1990 Directors' Stock Option Plan, as amended. (4)
10.4 +	1996 Stock Plan, as amended. (4)
10.5 +	2002 Stock Option Plan, as amended. (2)
10.6	Form of Indemnification Agreement. (1)
10.7+	Employment Agreement by and between Registrant and David D. French dated February 7, 2002. (5)
10.8+	Executive Incentive Plan. (5)
10.9	Lease between TPLP Office and Registrant, dated April 1, 2000 for 54,385 square feet located at 4210 S. Industrial Drive Austin, Texas. (1)
10.10	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. (1)
10.11	Lease between American Industrial Properties and Registrant, dated September 15, 1999 for 18,056 square feet located at 4120 Commercial Drive Austin, Texas. (1)
10.12	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. (1)
10.13	Amendment No. 1 to Lease Agreement by and between Desta Five Partnership, Ltd. and Registrant dated November 10, 2001. (5)
10.14	Amendment No. 2 to Lease Agreement by and between Desta Five Partnership, Ltd. and Registrant dated November 10, 2000. (2)
10.15+	Employment Agreement by and between Registrant and John T. Kurtzweil dated March 15, 2004. (6)
10.16	Amended and Restated Rights Agreement, dated as of February 17, 1999 between Cirrus Logic, Inc. and BankBoston, N.A. (7)
10.17	First Amendment to Amended and Restated Rights Agreement dated as of May 25, 2005, between Cirrus Logic, Inc. and BankBoston, N.A. (8)
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm. (8)
24.1	Power of Attorney (see signature page). (8)
31.1 *	Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 *	Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 *	Certification of Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 *	Certification of Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

+ Indicates a management contract or compensatory plan or arrangement.
* Filed with this Form 10-Q.

(1) Incorporated by reference from Registrant's Report on Form 10-K for the fiscal year ended March 31, 2001, filed with the Commission on June 22, 2001.
(2) Incorporated by reference from Registrant's Report on Form 10-K for the fiscal year ended March 29, 2003, filed with the Commission on June 13, 2003.
(3) Incorporated by reference from 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 from Registrant's Registration Statement on Form S-8 filed with the Commission on August 8, 2001 (Registration No. 333-67322).
(5) Incorporated by reference from Registrant's Report on Form 10-K for the fiscal year ended March 30, 2002, filed with the Commission on June 19, 2002.
(6) Incorporated by reference from Registrant's Report on Form 10-K for the fiscal year ended March 27, 2004, filed with the Commission on June 9, 2004.
(7) Incorporated by reference from Registrant's Registration Statement of Amendment No. 1 to Form 8-A filed on March 3, 1999.
(8) Incorporated by reference from Registrant's Report on Form 10-K for the fiscal year ended March 26, 2005, filed with the Commission on May 27, 2005.

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SIGNATURE

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

CIRRUS LOGIC, INC.

By: /s/ JOHN T. KURTZWEIL
John T. Kurtzweil
Chief Financial Officer
Date: October 25, 2005

Exhibit 10.2

CIRRUS LOGIC, INC.

FIFTH AMENDED AND RESTATED 1989 EMPLOYEE STOCK PURCHASE PLAN

(Restated as of December 8, 2000)

(As Amended July 25, 2001, July 24, 2002, July 31, 2003, and September 21, 2005)

1. Purpose . The purpose of the Plan is to provide employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock of the Company through accumulated payroll deductions. It is the intention of the Company to have the Plan qualify as an "Employee Stock Purchase Plan" under Section 423 of the Internal Revenue Code of 1986, as amended. The provisions of the Plan shall, accordingly, be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

All share numbers in this Restatement reflect the 2-for-1 stock split effected July 18, 1995.

2. Definitions .

(a) " Board " shall mean the Board of Directors of the Company.

(b) " Code " shall mean the Internal Revenue Code of 1986, as amended.

(c) " Common Stock " shall mean the Common Stock, $0.001 par value, of the Company.

(d) " Company " shall mean Cirrus Logic, Inc., a Delaware corporation.

(e) " Compensation " shall mean annual base salary, and not including payments for overtime, incentive payments, bonuses and commissions.

(f) " Continuous Status as an Employee " shall mean the absence of any interruption or termination of service as an Employee. Continuous Status as an Employee shall not be considered interrupted in the case of a leave of absence agreed to in writing by the Company, provided that such leave is for a period of not more than ninety (90) days or reemployment upon the expiration of such leave is guaranteed by contract or statute.

(g) " Designated Subsidiaries " shall mean the Subsidiaries which have been designated by the Board from time to time in its sole discretion as eligible to participate in the Plan.

(h) " Employee " shall mean any person, including an officer, who is customarily employed for at least twenty (20) hours per week and more than five (5) months in a calendar year by the Company or one of its Designated Subsidiaries.

(i) “ Exercise Date ” shall mean the last day of each offering period of the Plan.

(j) “ Offering Date ” shall mean the first day of each offering period of the Plan.

(k) “ Offering Period ” shall have the meaning set forth in Section 4 of the Plan.

(l) “ Plan ” shall mean this Amended 1989 Employee Stock Purchase Plan.

(m) “ Subscription Agreement ” shall have the meaning set forth in Section 5 of the Plan.

(n) “ Subsidiary ” shall mean a corporation, domestic or foreign, of which not less than fifty percent (50%) of the voting shares are held by the Company or a Subsidiary, whether or not such corporation now exists or is hereafter organized or acquired by the Company or a Subsidiary.

3. Eligibility .

(a) Any person who is an Employee as of the Offering Date of the first offering period shall be eligible to participate in such offering period under the Plan; thereafter, any person who is an Employee fifteen (15) days prior to the Offering Date of a given offering period shall be eligible to participate in such offering period under the Plan. The eligibility criteria set forth in this paragraph 3(a) is subject to the requirements of paragraph 5(a) and the limitations imposed by Section 423(b) of the Code.

(b) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan (i) if, immediately after the grant, such Employee (or any other person whose stock would be attributed to such Employee pursuant to Section 425(d) of the Code) would own stock and/or hold outstanding options to purchase stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any subsidiary of the Company, or (ii) which permits his rights to purchase stock under all employee stock purchase plans (described in Section 423 of the Code) of the Company and its subsidiaries to accrue at a rate which exceeds Twenty-Five Thousand Dollars ($25,000) of fair market value of such stock (determined at the time such option is granted) for each calendar year in which such option is outstanding at any time.

4. Offering Periods . The Plan shall be implemented by one offering during each six-month period of the Plan. The first offering period commenced on the effective date of the Company’s initial public offering pursuant to a Registration Statement filed with the Securities and Exchange Commission and terminated on December 31, 1989. Subsequent offering periods shall continue until the Plan is terminated in accordance with paragraph 19 hereof. The Board of Directors of the Company shall have the power to change the duration of offering periods with respect to future offerings without stockholder approval if such change is announced at least fifteen (15) days prior to the scheduled beginning of the first offering period to be affected.

5. Participation .

(a) An eligible Employee may become a participant in the Plan by completing a subscription agreement authorizing payroll deduction on the form provided by the Company (the "Subscription Agreement") and filing it with the Company's payroll office fifteen (15) days prior to the applicable Offering Date, unless a later time for filing the Subscription Agreement is set by the Board for all eligible Employees with respect to a given offering.

(b) Payroll deductions for a participant shall commence on the first payroll following the Offering Date and shall end on the Exercise Date of the offering to which such Subscription Agreement is applicable, unless sooner terminated by the participant as provided in paragraph 10.

6. Payroll Deductions .

(a) At the time a participant files his Subscription Agreement, he shall elect to have payroll deductions made on each payday during the offering period in an amount which is a minimum of two percent (2%) and a maximum of ten percent (10%) of the Compensation which he received on the payday immediately preceding the Offering Date, and the aggregate of such payroll deductions during the offering period shall be a minimum of two percent (2%) and a maximum of ten percent (10%) of his aggregate Compensation during said offering period, unless the Board determines otherwise in a manner applicable uniformly to all of the participants of the Plan. The payroll deductions that a participant may elect shall only be made in whole percentages of the participant's Compensation.

(b) All payroll deductions made by a participant shall be credited to his account under the Plan. A participant may not make any additional payments into such account.

(c) A participant may discontinue his participation in the Plan as provided in paragraph 10, or may lower, but not increase, the rate of his payroll deductions during the offering period by completing or filing with the Company a new Subscription Agreement. The change in rate effected by the new Subscription Agreement shall be effective fifteen (15) days following the Company's receipt of such agreement.

7. Grant of Option .

(a) On the Offering Date of each offering period, each eligible Employee participating in the Plan shall be granted an option to purchase (at the per share option price) up to a number of shares of the Company's Common Stock determined by dividing such Employee's payroll deductions to be accumulated during such offering period (not to exceed an amount equal to ten percent (10%) of his Compensation as of the date of the commencement of the applicable offering period) by ninety-five percent (95%) of the fair market value of a share of the Company's Common Stock on the Offering Date, subject to the limitations set forth in Sections 3(b) and 12 hereof. Fair market value of a share of the Company's Common Stock shall be determined as provided in Section 7(b) herein.

(b) The option price per share of the shares offered in a given Offering Period shall be ninety-five percent (95%) of the fair market value of a share of the Common Stock of the Company on the Exercise Date. The fair market value of the Company's Common Stock as of a given date shall mean: (i) if the Common Stock is listed or admitted to trading on The New York Stock Exchange or on another established stock exchange (including, for this purpose, the Nasdaq National Market), the closing sale price for a share of the Common Stock on the composite tape for such exchange (or in Nasdaq National Market trading, if applicable) as reported in The Wall Street Journal (or, if not so reported, such other nationally recognized reporting source as the Board shall select) for such date, or, if no such price is reported for such date, the most recent day for which such price is available shall be used; (ii) if the Common Stock is not then listed or admitted to trading on such a stock exchange, the mean of the closing representative bid and asked prices for the Common Stock on such date as reported by the Nasdaq Small Cap Market or, if not so reported, by the OTC Bulletin Board (or any successor or similar quotation system regularly reporting the market value of the Common Stock in the over-the-counter market), or, if no such prices are reported for such date, the most recent day for which such prices are available shall be used; or (iii) in the event neither of the valuation methods provided for in clauses (i) and (ii) above are practicable, the fair market value of a share of Common Stock determined by such other reasonable valuation method as the Board shall, in its discretion, select and apply in good faith as of such date.

8. Exercise of Option. Unless a participant withdraws from the Plan as provided in paragraph 10, his option for the purchase of shares will be exercised automatically on the Exercise Date of the offering period, and the maximum number of full shares subject to option will be purchased for him at the applicable option price with the accumulated payroll deductions in his account. Effective for Offering Periods commencing on or after December 31, 2000, the amount, if any, held in a participant's account under the Plan which remains in such account after the purchase of the maximum number of full shares subject to the option pursuant to this Section 8 shall be paid to the participant within thirty (30) days of the Exercise Date. The shares purchased upon exercise of an option hereunder shall be deemed to be transferred to the participant on the Exercise Date. During his lifetime, a participant's option to purchase shares hereunder is exercisable only by him.

9. Delivery. Within 30 days after the Exercise Date of each offering period, the Company shall arrange the delivery to each participant, as appropriate, of a certificate representing the shares purchased upon exercise of his option. Any cash remaining to the credit of a participant's account under the Plan after a purchase by him of shares at the termination of each offering period, or which is insufficient to purchase a full share of Common Stock of the Company, shall be paid to the participant within thirty (30) days of the Exercise Date.

10. Withdrawal; Termination of Employment.

(a) A participant may withdraw all but not less than all the payroll deductions credited to his account under the Plan fifteen (15) days prior to the Exercise Date of the offering period by giving written notice to the Company. By such written notice to the Company, (i) a participant may elect to have all of the participant's payroll deductions credited to his account (A) paid to him within thirty (30) days after receipt of such written notice of withdrawal or (B) continue to be held by the Company for the purchase of shares of Common Stock hereunder on the next

succeeding Exercise Date as designated by the participant in such written notice; and (ii) his option for the current period will be automatically terminated, and no further payroll deductions for the purchase of shares will be made during the offering period.

(b) Upon termination of the participant's Continuous Status as an Employee prior to the Exercise Date of the offering period for any reason, including retirement or death, the payroll deductions credited to his account will be returned to him or, in the case of his death, to the person or persons entitled thereto under paragraph 14, and his option will be automatically terminated.

(c) In the event an Employee fails to remain in Continuous Status as an Employee of the Company for at least twenty (20) hours per week during the offering period in which the employee is a participant, he will be deemed to have elected to withdraw from the Plan and the payroll deductions credited to his account will be returned to him and his option terminated.

(d) A participant's withdrawal from an offering will not have any effect upon his eligibility to participate in a succeeding offering or in any similar plan which may hereafter be adopted by the Company.

11. Interest . No interest shall accrue on the payroll deductions of a participant in the Plan.

12. Stock .

(a) The maximum number of shares of the Company's Common Stock which shall be made available for sale under the Plan shall be 7,300,000 shares, subject to adjustment upon changes in capitalization of the Company as provided in paragraph 18. Such authorized share reserve includes (i) the increase of an additional 300,000 shares authorized by the Board March 22, 1990 and approved by the stockholders July 26, 1990, (ii) the increase of an additional 400,000 shares authorized by the Board March 21, 1991 and approved by the stockholders July 25, 1991, (iii) the increase of an additional 100,000 shares authorized by the Board April 7, 1992 and approved by the stockholders July 23, 1992, (iv) the increase of an additional 400,000 shares authorized by the Board May 25, 1993 and approved by the stockholders July 27, 1993, (v) the increase of an additional 600,000 shares authorized by the Board May 5, 1994 and approved by the stockholders July 26, 1994, (vi) the increase of an additional 800,000 shares authorized by the Board April 17, 1995 and approved by the stockholders August 1, 1995, (vii) the increase of an additional 600,000 shares authorized by the Board May 21, 1996 and approved by the stockholders August 1, 1996, (viii) the increase of an additional 1,000,000 shares authorized by the Board May 19, 1997 and approved by the stockholders July 31, 1997, (ix) the increase of an additional 300,000 shares authorized by the Board and approved by the stockholders July 21, 1998, (x) the increase of an additional 900,000 shares authorized by the Board April 1, 1999 and approved by the stockholders July 29, 1999, (xi) the increase of an additional 200,000 shares authorized by the Board April 25, 2001 and approved by the stockholders July 25, 2001, and (xii) the increase of an additional 1,500,000 shares authorized by the Board on April 23, 2003 and approved by the stockholders on July 31, 2003. If the total number of shares which would otherwise be subject to options granted pursuant to Section 7(a) hereof on the Offering Date of an offering period exceeds the number of shares then available under the Plan (after deduction of all shares for which options have been exercised or are then outstanding),

the Company shall make a pro rata allocation of the shares remaining available for option grant in as uniform a manner as shall be practicable and as it shall determine to be equitable. In such event, the Company shall give written notice of such reduction of the number of shares subject to the option to each Employee affected thereby and shall similarly reduce the rate of payroll deductions, if necessary.

(b) The maximum number of shares which a participant may purchase in any offering period shall be one thousand five hundred (1,500) shares.

(c) The participant will have no interest or voting right in shares covered by his option until such option has been exercised.

(d) Shares to be delivered to a participant under the Plan will be registered in the name of the participant or in the name of the participant and his spouse.

13. Administration. The Plan shall be administered by the Board of the Company or a committee of members of the Board appointed by the Board. The administration, interpretation or application of the Plan by the Board or its committee shall be final, conclusive and binding upon all participants. Members of the Board who are eligible Employees are permitted to participate in the Plan, provided that:

(a) Members of the Board who are eligible to participate in the Plan may not vote on any matter affecting the administration of the Plan or the grant of any option pursuant to the Plan.

(b) If a Committee is established to administer the Plan, no member of the Board who is eligible to participate in the Plan may be a member of the Committee.

14. Designation of Beneficiary.

(a) A participant may file a written designation of a beneficiary who is to receive any shares and cash, if any, from the participant's account under the Plan in the event of such participant's death subsequent to the end of the offering period but prior to delivery to him of such shares and cash. In addition, a participant may file a written designation of a beneficiary who is to receive any cash from the participant's account under the Plan in the event of such participant's death prior to the Exercise Date of the offering period.

(b) Such designation of beneficiary may be changed by the participant at any time by written notice. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such shares and/or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

15. Transferability. Neither payroll deductions credited to a participant's account nor any rights with regard to the exercise of an option or to receive shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution or as provided in paragraph 14 hereof) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds in accordance with paragraph 10.

16. Use of Funds. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

17. Reports. Individual accounts will be maintained for each participant in the Plan. Statements of account will be given to participating Employees promptly following the Exercise Date, which statements will set forth the amounts of payroll deductions, the per share purchase price, the number of shares purchased and the remaining cash balance, if any.

18. Adjustments Upon Changes in Capitalization. Subject to any required action by the stockholders of the Company, the number of shares of Common Stock covered by each option under the Plan which has not yet been exercised and the number of shares of Common Stock which have been authorized for issuance under the Plan but have not yet been placed under option (collectively, the "Reserves"), as well as the price per share of Common Stock covered by each option under the Plan which has not yet been exercised, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of shares of Common Stock effected without receipt of consideration by the Company; 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 Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issue 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 thereof shall be made with respect to, the number or price of shares of Common Stock subject to an option.

In the event of the proposed dissolution or liquidation of the Company, the offering period will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Board. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, each option under the Plan shall be assumed or an equivalent option shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation, unless the Board determines, in the exercise of its sole discretion and in lieu of such assumption or substitution, that the participant shall have the right to exercise the option as to all of the optioned stock, including shares as to which the option would not otherwise be exercisable. If the Board makes an option fully exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Board shall notify the participant that the option shall be fully exercisable for a period of fifteen (15) days from the date of such notice, and the option will terminate upon the expiration of such period.

The Board may, if it so determines in the exercise of its sole discretion, also make provision for adjusting the Reserves, as well as the price per share of Common Stock covered by each outstanding option, in the event that the Company effects one or more reorganizations, recapitalizations, rights offerings or other increases or reductions of shares of its outstanding Common Stock, and in the event of the Company being consolidated with or merged into any other corporation.

19. Amendment or Termination .

(a) The Board of Directors of the Company may at any time terminate or amend the Plan. Except as provided in paragraph 18, no such termination can affect options previously granted, nor may an amendment make any change in any option theretofore granted which adversely affects the rights of any participant, nor may an amendment be made without prior approval of the stockholders of the Company (obtained in the manner described in paragraph 21) if such amendment would increase the number of shares that may be issued under the Plan.

(b) This restatement reflects the amendments to the Plan to increase the number of shares reserved under the Plan as follows: (i) the increase of an additional 300,000 shares authorized by the Board March 22, 1990 and approved by the stockholders July 26, 1990, (ii) the increase of an additional 400,000 shares authorized by the Board March 21, 1991 and approved by the stockholders July 25, 1991, (iii) the increase of an additional 100,000 shares authorized by the Board April 7, 1992 and approved by the stockholders July 23, 1992, (iv) the increase of an additional 400,000 shares authorized by the Board May 25, 1993 and approved by the stockholders July 27, 1993, (v) the increase of an additional 600,000 shares authorized by the Board May 5, 1994 and approved by the stockholders July 26, 1994, (vi) the increase of an additional 800,000 shares authorized by the Board April 17, 1995 and approved by the stockholders August 1, 1995, (vii) the increase of an additional 600,000 shares authorized by the Board May 21, 1996 and approved by the stockholders August 1, 1996, (viii) the increase of an additional 1,000,000 shares authorized by the Board May 19, 1997 and approved by the stockholders July 31, 1997, (ix) the increase of an additional 300,000 shares authorized by the Board and approved by the stockholders July 21, 1998, (x) the increase of an additional 900,000 shares authorized by the Board April 1, 1999 and approved by the stockholders July 29, 1999, (xi) the increase of an additional 200,000 shares authorized by the Board April 25, 2001 and approved by the stockholders July 25, 2001, and (xii) the increase of an additional 1,500,000 shares authorized by the Board on April 23, 2003 and approved by the stockholders on July 31, 2003.

20. Notices . All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

21. Stockholder Approval.

(a) Any required approval of the stockholders of the Company shall be solicited substantially in accordance with Section 14(a) of the Exchange Act and the rules and regulations promulgated thereunder.

(b) If any required approval by the stockholders of the Plan itself or of any amendment to increase the number of shares reserved for issuance under the Plan is solicited at any time other than in the manner described in paragraph 21(a) hereof, then the Company shall, at or prior to the first annual meeting of stockholders held subsequent to the granting of an option hereunder to an officer or director do the following:

(i) furnish in writing to the holders entitled to vote for the Plan substantially the same information which would be required (if proxies to be voted with respect to approval or disapproval of the Plan or amendment were then being solicited) by the rules and regulations in effect under Section 14(a) of the Exchange Act at the time such information is furnished; and

(ii) file with, or mail for filing to, the Securities and Exchange Commission four copies of the written information referred to in subsection (ii) hereof not later than the date on which such information is first sent or given to stockholders.

22. Conditions Upon Issuance of Shares. Shares shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an option, the Company may require the person exercising such option 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 of the aforementioned applicable provisions of law.

23. Term of Plan. The Plan shall become effective upon the earlier to occur of its adoption by the Board of Directors or its approval by the stockholders of the Company as described in paragraph 21. It shall continue in effect for a term of twenty (20) years unless sooner terminated under paragraph 19.

Exhibit 31.1

CERTIFICATION
pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, David D. French, certify that:

1. I have reviewed this report on Form 10-Q of Cirrus Logic, Inc;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 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-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of the registrant's Board of Directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 25, 2005

Signature: /s/ David D. French
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION
pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, John T. Kurtzweil, certify that:

1. I have reviewed this report on Form 10-Q of Cirrus Logic, Inc;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 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-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of the registrant's Board of Directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 25, 2005

Signature: /s/ John T. Kurtzweil
Chief Financial Officer

Exhibit 32.1

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 quarterly report of Cirrus Logic, Inc. (the “Company”) on Form 10-Q for the period ended September 24, 2005, as filed with the Securities and Exchange Commission (the “Report”), I, David D. French, President and Chief Executive Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This Certification has not been, and shall not be deemed, “filed” with the Securities and Exchange Commission.

Date: October 25, 2005

/s/ David D. French
David D. French

Exhibit 32.2

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 quarterly report of Cirrus Logic, Inc. (the "Company") on Form 10-Q for the period ended September 24, 2005, as filed with the Securities and Exchange Commission (the "Report"), I, John T. Kurtzweil, Chief Financial Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Date: October 25, 2005

/s/ John T. Kurtzweil
John T. Kurtzweil