CIRRUS LOGIC INC

FORM 10-Q
(Quarterly Report)

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Sector	Technology
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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 QUARTER PERIOD ENDED JUNE 30, 2001

COMMISSION FILE NUMBER 0-17795

CIRRUS LOGIC, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER.)

DELAWARE	77-0024818
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

4210 SOUTH INDUSTRIAL DRIVE, AUSTIN, TX 78744
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE:
(512) 445-7222

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

The number of shares of the registrant's common stock, $0.001 par value, outstanding as of June 30, 2001 was 73,821,514, excluding 6,443,900 treasury shares.

CIRRUS LOGIC, INC.

FORM 10-Q QUARTERLY REPORT

QUARTERLY PERIOD ENDED JUNE 30, 2001

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CIRRUS LOGIC, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(IN THOUSANDS)

	JUNE 30, 2001	MARCH 31, 2001
Assets	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 151,512	$ 253,136
Restricted cash	10,000	10,000
Marketable equity securities	11,356	6,581
Accounts receivable, net	139,795	136,102
Inventories, net	81,901	109,161
Other current assets	18,463	18,217
	413,027	533,197
Property and equipment, net	33,108	32,340
Deposits and other assets	42,208	32,468
	$ 488,343	$ 598,005
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 89,212	$ 115,254
Current maturities of long-term debt and capital lease obligations	2,040	3,133
Income taxes payable	40,672	41,053
	131,924	159,440
Long term obligations	3,766	4,319
Commitments and contingencies		
Minority interest in eMicro	1,431	1,703
Stockholders' Equity		
Capital stock	663,162	715,790
Accumulated other comprehensive income	9,477	4,578
Accumulated deficit	(321,417)	(287,825)
	351,222	432,543
	$ 488,343	$ 598,005

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

CIRRUS LOGIC, INC.
UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	QUARTER ENDED	
	JUNE 30, 2001	JUNE 24, 2000
Net sales	$ 179,673	$ 181,412
Costs and expenses:		
Cost of sales	158,998	107,899
Research and development	30,827	31,039
Selling, general and administrative	25,448	26,268
Restructuring costs, gain on sale of assets and other, net	1,919	(12,514)
Total costs and expenses	217,192	152,692
Income (loss) from operations	(37,519)	28,720
Realized gain on sale of marketable equity securities	10,967	79,639
Interest expense	(29)	(4,981)
Interest income	2,886	4,805
Other income	426	514
Income (loss) before provision for income taxes	(23,269)	108,697
Provision for income taxes	--	(10,711)
Minority interest in loss of eMicro	272	119
Income (loss) before extraordinary gain and accounting change	(22,997)	98,105
Extraordinary gain, net of income tax	--	2,482
Cumulative effect of change in accounting principle	--	(1,707)
Net income (loss)	$ (22,997)	$ 98,880
Basic income (loss) per share:		
Before extraordinary gain and accounting change	$ (0.31)	$ 1.50
Extraordinary gain, net of income tax	--	0.04
Cumulative effect of change in accounting principle	--	(0.03)
	$ (0.31)	$ 1.51
Diluted income (loss) per share:		
Before extraordinary gain and accounting change	$ (0.31)	$ 1.26
Extraordinary gain, net of income tax	--	0.03
Cumulative effect of change in accounting principle	--	(0.02)
	$ (0.31)	$ 1.27
Weighted average common stock outstanding:		
Basic	74,253	65,549
Diluted	74,253	80,684

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

CIRRUS LOGIC, INC.
UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	JUNE 30, 2001	JUNE 24, 2000
Cash flows from operating activities:		
Net income (loss)	$ (22,997)	$ 98,880
Adjustments to reconcile net income (loss) to net cash flows from operations:		
Depreciation and amortization	7,266	7,642
Other non-cash charges	1,846	467
Extraordinary gain, net of income tax	--	(2,482)
Gain on sale of short-term investments	(10,967)	(79,639)
Net change in operating assets and liabilities	(2,637)	(29,071)
Net cash used in operations	(27,489)	(4,203)
Cash flows from investing activities:		
Proceeds from sale of short-term investments	10,967	81,639
Purchase of property and equipment	(4,624)	(4,331)
Investments in technology	(3,407)	(4,416)
Acquisition of Peak Audio	(10,533)	--
Change in deposits and other assets	(1,774)	96
Change in restricted cash	--	(560)
Net cash (used in) provided by investing activities	(9,371)	72,428
Cash flows from financing activities:		
Repurchase of treasury stock	(68,461)	--
Repurchase of convertible subordinated notes	--	(24,848)
Proceeds from issuance of common stock	4,831	2,409
Payments on long-term debt and capital lease obligations	(1,258)	(6,246)
Unrealized foreign currency translation	124	143
Cash contributions from minority partners	--	5,000
Net cash used in financing activities	(64,764)	(23,542)
Net (decrease) increase in cash and cash equivalents	(101,624)	44,683
Cash and cash equivalents at beginning of period	253,136	144,034
Cash and cash equivalents at end of period	$ 151,512	$ 188,717

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

NOTES TO THE UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The consolidated condensed financial statements have been prepared by Cirrus Logic, Inc. ("we", "our", "us", "the Company") pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. In our opinion, the financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial position, operating results and cash flows for those periods presented. These unaudited consolidated condensed financial statements should be read in conjunction with the consolidated financial statements, and notes thereto for the year ended March 31, 2001, included in our 2001 Annual Report on Form 10-K. The results of operations for the interim period presented are not necessarily indicative of the results that may be expected for the entire year.

Certain reclassifications have been made to the 2001 financial statements to conform to the 2002 presentation. Such reclassifications had no effect on the results of operations or stockholders' equity.

2. ACCOUNTING CHANGES AND EFFECT OF RECENTLY ISSUED ACCOUNTING STANDARDS

We adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," effective April 1, 2001. Adoption of SFAS No. 133 did not have a material impact on our results of operations or financial position. At June 30, 2001, we had foreign currency forward contracts to sell approximately 1.65 billion Japanese Yen at an average rate of approximately 119.5 Japanese Yen per dollar. At June 30, 2001, the fair value and unrealized gain on these contracts was $0.5 million.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The amortization provisions of SFAS No. 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, we are required to adopt SFAS No. 142 effective April 1, 2002. We are currently evaluating the effect that SFAS No. 142 will have on our results of operations and financial position.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements." We recorded a cumulative effect of a change in accounting principle in the first quarter of fiscal 2001 to reflect our adoption of new revenue recognition policies as a result of this guidance. Effective with the first quarter of fiscal 2001, we have recognized revenue on international shipments based on customer receipt and title passage of inventory rather than on the date of shipment, which was our historical method. The cumulative effect of the change for prior years resulted in a charge to income of $1.7 million. The effect of the change for the fiscal year 2001 was to increase revenue $5.2 million, increase cost of sales $3.5 million, increase income before extraordinary gain and net income before the change in accounting principle $1.7 million, and increase basic and diluted earnings per share by $.02 per share.

During the first quarter of fiscal 2001, we also changed our estimate of the amount of revenue that is deferred on certain distributor transactions under agreements with only limited rights of return. Results for the fiscal period ended March 31, 2001 include revenue of $5.4 million, cost of sales of $2.0, million and income of $3.4 million related to this change in estimate. The effect of this estimate change increased basic and diluted earnings per share by $0.03 for the fiscal year ended March 31, 2001.

3. INVENTORIES

Net inventories are comprised of the following:

	JUNE 30, 2001	MARCH 31, 2001
Work-in process	$ 64,217	$ 81,272
Finished goods	17,684	27,889
	$ 81,901	$ 109,161

4. INCOME TAXES

We have accrued no income tax expense for the fiscal quarter ended June 30, 2001 because of the losses incurred for the quarter and forecasted for the year ended March 30, 2002.

SFAS No. 109, "Accounting for Income Taxes," provides for the recognition of deferred tax assets if realization of such assets is more likely than not. We have provided a valuation allowance equal to net deferred tax assets due to uncertainties regarding their realization. The realizability of the deferred tax assets will be evaluated on a quarterly basis.

5. RESTRUCTURING CHARGES AND OTHER

On May 2, 2001, we announced a change to our business model, in which we are de-emphasizing our magnetic storage chip business and are focusing on consumer-entertainment electronics. On May 15, 2001, we announced cost-reduction actions to align company resources and expenses with this new business model. In connection with these strategic decisions, we reduced our workforce by approximately 120 employees worldwide, or about nine percent of the total workforce. During the first quarter of fiscal 2002, we recorded a special charge of $1.9 million to cover costs associated with these workforce reductions. During the first quarter of fiscal 2001, we recorded $12.5 million in income to recognize the receipt of two previously-reserved notes from Intel Corporation on behalf of Basis Communications Corporation.

6. NET INCOME PER SHARE

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

BASIC EARNINGS PER SHARE	QUARTER ENDED JUNE 30, 2001	QUARTER ENDED JUNE 24, 2000
Income (loss) before extraordinary gain and accounting change	$ (22,997)	$ 98,105
Extraordinary gain, net of income tax	--	2,482
Cumulative effect of change in accounting principle	--	(1,707)
Net income (loss)	$ (22,997)	$ 98,880
Weighted average common stock outstanding	74,253	65,549
Basic net income (loss) per share:		
Before extraordinary gain and accounting change	$ (0.31)	$ 1.50
Extraordinary gain, net of income tax	--	0.04
Cumulative effect of change in accounting principle	--	(0.03)
Basic net income (loss) per share	$ (0.31)	$ 1.51
DILUTED EARNINGS PER SHARE		
Income (loss) before extraordinary gain and accounting change	$ (22,997)	$ 98,105
Effect of convertible subordinated note conversion	--	3,657
Income (loss) including assumed conversions before extraordinary gain and accounting change	(22,997)	101,762
Extraordinary gain, net of income tax	--	2,482
Cumulative effect of change in accounting principle	--	(1,707)
Net income (loss)	$ (22,997)	$ 102,537
Weighted average common stock outstanding	74,253	65,549
Assumed conversion of convertible subordinated notes	--	11,184
Dilutive effect of stock options outstanding	--	3,833
Contingent shares issueable in connection with acquisition	--	118
Diluted shares of common stock outstanding	74,253	80,684
Diluted income (loss) per share:		
Before extraordinary gain and accounting change	$ (0.31)	$ 1.26
Extraordinary gain, net of income tax	--	0.03
Cumulative effect of change in accounting principle	--	(0.02)
Diluted net income (loss) per share	$ (0.31)	$ 1.27

Incremental common shares attributable to the exercise of outstanding options of 2,608,987 shares for the three months ended June 30, 2001 were excluded from the computation of diluted net income per share because the effect would be antidilutive.

Diluted earnings per share for June 24, 2000 of $1.27 includes an adjustment to increase net income by $3.7 million and diluted shares by 11.3 million, which is the quarterly after-tax interest savings and shares which would have been issued in connection with the convertible debt.

7. STOCK REPURCHASE

On April 11, 2001, we repurchased approximately 6.4 million shares of our common stock from a former member of the Board of Directors for approximately $68.5 million.

8. ACQUISITION OF PEAK AUDIO

On April 30, 2001, we completed the acquisition of the assets of Peak Audio, Inc. ("Peak"), a Colorado-based company specializing in commercial audio networking products. The acquisition was structured as a cash purchase of Peak's assets for an initial consideration of $11 million. As part of the acquisition, the shareholders of Peak can potentially earn up to an additional $16 million in consideration based on the financial performance of the purchased assets over a two-year period. The contingent consideration can be paid in cash or Cirrus Logic common stock at our discretion. The acquisition was accounted for under the purchase method of accounting. The purchase price was allocated to the estimated fair value of assets acquired and liabilities assumed based on independent appraisals and management estimates, resulting in goodwill of $0.8, which is being amortized over 5 years. Approximately $1.9 million of the Peak purchase price was allocated to in-process research and development based upon an independent third-party appraisal and was expensed upon the closing of the transaction. The results of operations of Peak have been included with those of the Company subsequent to the acquisition date, which was April 30, 2001. Pro forma financial information has been excluded, as the results of operations of Peak are not material to our results of operations for the first fiscal quarters of 2002 and 2001.

9. COMMITMENTS AND CONTINGENCIES

As of June 30, 2001, we had one volume purchase agreement. The agreement was executed in August 2000 and expires on March 31, 2003. This agreement is purchase-order based and does not have "take / pay" clauses. There are cancellation fees of 50% once the vendor acknowledges a purchase order. There are cancellation fees of 100% once the vendor begins manufacturing a purchase order. Purchase order commitments as of June 30, 2001 were $22.3 million for yielded wafers to be delivered through September 2001. Additionally, we had non-cancelable assembly purchase orders with numerous vendors totaling $4.0 million.

On July 5, 2001, Western Digital Corporation and its Malaysian subsidiary, Western Digital (M) SDN, BHD, filed a lawsuit against us in the Superior Court of the State of California, Orange County. The plaintiffs have alleged breach of contract, breach of the covenant of good faith and fair dealing, promissory estoppel, declaratory relief, unjust enrichment, restitution, unfair trade practices and declaratory relief. The basis for this complaint relates to negotiations regarding prices and commitments regarding the guaranteed purchase of wafers. The plaintiffs seek damages in excess of $60 million and currently owe us $27 million for products we have shipped, as well as $32 million in additional non-cancelable orders placed with us that have been canceled. This suit was filed shortly after we made demand upon the plaintiffs to fulfill their purchase obligations with regard to the wafers in question. We are evaluating various counterclaims. We believe the asserted claims are without merit and will defend ourselves vigorously.

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

We are involved in some litigation that, while the outcome of which cannot be predicted with certainty, is not expected to have a material adverse effect on us.

10. COMPREHENSIVE INCOME

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

	QUARTER ENDED	
	JUNE 30, 2001	JUNE 24, 2000
Net income (loss)	$ (22,997)	$ 98,880
Change in unrealized gain on marketable equity securities	4,775	(24,617)
Change in unrealized loss on foreign currency translation adjustments	124	143
	$ (18,098)	$ 74,406

11. SEGMENT INFORMATION

We design and manufacture integrated circuits that employ precision linear and advanced mixed-signal processing technologies. We are organized into three principal businesses or operating segments: Analog Products Business Group, Internet Solutions Business Group and the Magnetic Storage Business Group, with the remaining products grouped as End of Life. Each of these business groups has one or more general managers who report directly to the Chief Executive Officer (CEO). The CEO has been identified as the Chief Operating Decision Maker as defined by SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information."

Operating segments do not have material sales to other segments, and accordingly, there are no inter-segment revenues to be reported. We also do not allocate our restructuring charges, interest and other income, interest expense or income taxes to operating segments. We do not identify or allocate assets by operating segments, nor does the CEO evaluate the business groups based upon these criteria.

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

	QUARTER ENDED	
	JUNE 30, 2001	JUNE 24, 2000
Revenues:		
Analog	48,909	87,886
Internet	10,909	23,051
Magnetic Storage	119,827	53,614
End of Life	233	11,331
Corporate and all other	(205)	5,530
	179,673	181,412
Operating profit (losses):		
Analog	(21,701)	17,097
Internet	(11,399)	(1,034)
Magnetic Storage	(2,619)	(1,984)
End of Life	(20)	2,123
Corporate and all other	(1,780)	12,518
	(37,519)	28,720

12. SUBSEQUENT EVENTS

On July 19, 2001, we announced a definitive agreement to acquire LuxSonor Semiconductors, Inc. ("LuxSonor") pursuant to an Agreement of Merger by and among Cirrus Logic, LuxSonor, and Target Acquisition Corporation, dated as of July 18, 2001. Under the terms of the Merger Agreement, we will exchange an estimated $65 million of our stock for all outstanding shares and options of LuxSonor.

In addition, on July 19, 2001, we announced a definitive agreement to acquire ShareWave, Inc. ("ShareWave") pursuant to an Agreement of Merger by and among Cirrus Logic, ShareWave, and Target I Acquisition Corporation, dated as of July 19, 2001. Under the terms of the Merger Agreement, we will exchange an estimated $92 million of our stock for all outstanding shares and options of ShareWave.

On August 9, 2001, we announced a definitive agreement to acquire Stream Machine Company ("Stream Machine") pursuant to an Agreement of Merger by and among Cirrus Logic, Stream Machine, and Target Acquisition Corporation, dated as of August 9, 2001. Under the terms of the Merger Agreement, we will exchange an estimated $110 million of our stock for all outstanding shares and options of Stream Machine.

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

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included in Item 1 of this Quarterly Report and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended March 31, 2001, contained in the 2001 Annual Report on Form 10-K. Certain statements contained herein may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, as discussed more fully herein or the 2001 Annual Report on Form 10-K. Certain reclassifications have been made to conform to the 2002 presentation. Such reclassifications had no effect on the results of operations or stockholders' equity.

Cirrus Logic ("we, "our", "us", "the Company") is a leading supplier of high-performance analog and DSP chip solutions for Internet entertainment electronics, analog and magnetic markets. The Company designs and manufactures integrated circuits, or chips, that use high-performance analog and digital signal processing technologies. Our mixed signal devices are designed for specific markets that derive value from our expertise in advanced mixed-signal design processing, systems-level engineering and software knowledge. Our products, sold under our own name and the Crystal(R), Maverick(R), and 3Ci(TM) product brands, enable our customers to quickly deliver leading-edge technology products that are in high demand from consumers.

RESULTS OF OPERATIONS

	PERCENTAGE OF NET SALES QUARTER ENDED	
	JUNE 30, 2001	JUNE 24, 2000
Net sales	100%	100%
Gross margin	12%	41%
Research and development	17%	17%
Selling, general and administrative	14%	14%
Restructuring costs, gain on sale of assets and other, net	1%	(7)%
Income (loss) from operations	(21)%	16%
Realized gain on sale of marketable equity securities	6%	44%
Interest expense	0%	(3)%
Interest income	2%	3%
Income (loss) before income taxes	(13)%	60%
Provision (benefit) for income taxes	0%	(6)%
Income (loss) before extraordinary gain and accounting change	(13)%	54%
Extraordinary gain, net of tax	0%	1%
Cumulative effect of change in accounting principle	0%	(1)%
Net income (loss)	(13)%	55%

NET SALES

Net sales for the first quarter of fiscal 2002 decreased by $1.7 million, or 1%, to $179.7 million from $181.4 million for the first quarter of fiscal 2001. Net sales from core businesses, consisting of Magnetic Storage, Analog, Internet, Corporate and other business segments in the first quarter of fiscal 2002, increased 6% to $179.5 million, from $170.1 million in the first fiscal quarter of 2001. The increase in core revenues in the first quarter of fiscal 2002 was primarily due to a substantial increase in net sales in the magnetic storage business group. Magnetic Storage revenues increased $66.2 million to $119.8 million in the first quarter of fiscal 2002 from $53.6 million in the comparable period of fiscal 2001. Revenues in the Analog, Internet, and Corporate and all other business groups decreased in the first fiscal quarter of 2002 as compared to the first fiscal quarter of 2001 by $39.0 million, $12.1

million, and $5.7 million, respectively. Revenues from businesses that have been discontinued by us are included in our End of Life business segment. Revenues from discontinued businesses in the first fiscal quarter of 2002 were $0.2 million compared to $11.3 million in the first fiscal quarter of 2001.

We expect that our revenues related to our magnetic storage business, principally from Fujitsu, Western Digital and Hitachi, will decline significantly in the second quarter of fiscal 2002 to approximately $10 million.

Effective with the first quarter of fiscal 2001, we have recognized revenue on international shipments based on customer receipt and title passage of inventory, instead of on the date of shipment, which was our historical method. Results for fiscal 2001 include revenue of $5.2 million, cost of sales of $3.5 million, and a cumulative effect of change in accounting principle of $1.7 million as a result of this change. Also, during the first quarter of fiscal 2001, we changed our estimate of the amount of revenue that is deferred on distributor transactions under agreements with only limited rights of return. Results for fiscal 2001 include revenue of $5.4 million, cost of sales of $2.0 million, and income of $3.4 million related to this change in estimate. The effect of this estimate change increased basic and diluted earnings per share by $0.03 for fiscal 2001.

Export sales, principally to Asia, including sales to U.S.-based customers with manufacturing plants overseas, were 78% and 76% of total sales in the first quarter of fiscal 2002 and fiscal 2001, respectively.

Our sales are denominated primarily in U.S. dollars. From time to time, we enter into foreign currency forward exchange and option contracts to reduce the foreign currency exposures related to sales and balance sheet accounts denominated in yen.

During the first fiscal quarter of 2002, sales to Fujitsu accounted for 43% of net sales and sales to Western Digital accounted for 25% of net sales. As set forth above, we anticipate a significant reduction in the sales made to both Fujitsu and Western Digital in the second quarter of fiscal 2002. Sales to these two customers comprised approximately 15% and 12% of sales in the first quarter of fiscal 2001, respectively. The loss of a significant customer or a significant reduction in such a customer's orders could have an adverse effect on our sales.

GROSS MARGIN

Gross margin was 12% in the first quarter of fiscal 2002 and 41% in the first quarter of fiscal 2001. The significant reduction in gross margin during first fiscal quarter of 2002 is primarily the result of inventory charges recorded during the period. During the first fiscal quarter of 2002, we recorded an inventory charge of $36.6 million related to exiting the magnetic storage business group, and $12.7 million, mainly to reserve inventory that is excess to short-term usage forecasts.

RESEARCH AND DEVELOPMENT

Research and development expenditures for the first quarter of fiscal 2002 decreased $0.2 million, to $30.8 million from $31.0 million in the first quarter of fiscal 2001. Included in research and development expense for the first quarter of fiscal 2002 is $1.9 million related to the write-off of in-process research and development associated with the acquisition of Peak Audio.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses in the first quarter of fiscal 2002 decreased $0.9 million, or 3%, to $25.4 million from $26.3 million in the first quarter of fiscal 2001. The decrease is primarily related to a reduction in contract labor and temporary employees.

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

On May 2, 2001, we announced a change to our business model, in which we are de-emphasizing our magnetic storage chip business and are focusing on consumer-entertainment electronics. On May 15, 2001, we announced cost-reduction actions to align company resources and expenses with this new business model. In connection with these strategic decisions, we reduced our workforce by approximately 120 employees worldwide, or about nine percent of the total workforce. During the first quarter of fiscal 2002, we recorded a special charge of $1.9 million to cover costs associated with these workforce reductions.

During the first fiscal quarter of 2001, we recorded $12.5 million in income to recognize the receipt of two previously-reserved notes from Intel Corporation on behalf of Basis Communications Corporation.

REALIZED GAINS ON THE SALE OF MARKETABLE EQUITY SECURITIES AND INVESTMENTS

During the first quarter of fiscal 2002 and 2001, we recorded a gain of $1.1 million related to the sale of call options in Openwave Systems, Inc. (formerly known as Phone.com). Also, during the first quarters of fiscal 2002 and 2001, we recognized gains on the sale of marketable equity securities of $9.8 million and $78.5 million, respectively. These gains were related to the fiscal 2001 sale of our holdings of approximately 1 million shares of Series A preferred stock and 0.5 million shares of common stock in Basis Communications Corporation ("Basis") to Intel Corporation ("Intel") for $91.8 million. The sale was part of a tender offer whereby Intel purchased the outstanding preferred and common stock of Basis for $61.18 per share. Intel withheld from the total consideration paid $11.2 million pursuant to the indemnification provisions of the merger agreement between Intel and Basis, of which $9.8 million was received in the first quarter of fiscal 2002.

INTEREST EXPENSE

Interest expense was less than $0.1 million for the first fiscal quarter of 2002 compared to $5.0 million for the first quarter of fiscal 2001. The decrease in interest expense is primarily due to the repurchase and conversion of $299.0 million of our 6% convertible subordinated notes during fiscal 2001.

INTEREST INCOME

Interest income was $2.9 million for the first quarter of fiscal 2002 and $4.8 million for the first quarter of fiscal 2001. The decrease is primarily due to non-recurring interest income recorded in the first quarter of fiscal 2001 of $1.4 million, in addition to $3.4 million of interest earned during the period. The non-recurring interest income recorded in the first quarter of fiscal 2001 related to interest received on two outstanding notes receivable which had previously been written off.

INCOME TAXES

We have accrued no income tax expense for the fiscal quarter ended June 30, 2001 because of the losses incurred for the quarter and forecasted for the fiscal year ended March 30, 2002.

SFAS No. 109, "Accounting for Income Taxes," provides for the recognition of deferred tax assets if realization of such assets is more likely than not. We have provided a valuation allowance equal to net deferred tax assets due to uncertainties regarding their realization. The realizability of the deferred tax assets will be evaluated on a quarterly basis.

EXTRAORDINARY GAIN

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

LIQUIDITY AND CAPITAL RESOURCES

We used approximately $27.5 million of cash and cash equivalents in our operating activities during the first quarter of fiscal 2002 and used approximately $4.2 million during the first quarter of fiscal 2001. The cash used by operations in the first quarter of fiscal 2002 was primarily due to a payments made on accounts payable and accrued liabilities. The cash used by operations in the first quarter of fiscal 2001 was primarily due to increases in inventory and accounts receivable and decreases in accounts payable.

We used $9.4 million in cash for investing activities during the first quarter of fiscal 2002, primarily due to the acquisition of Peak Audio, compared to cash provided by investing activities of $72.4 million during the comparable period of fiscal 2001. The cash provided by investing activities for fiscal 2001 is primarily due to the sale of our interest in Basis.

We used $64.8 million in cash for financing activities during the first fiscal quarter of 2002 primarily related to the repurchase of approximately 6.4 million shares of stock for $68.5 million offset by proceeds of $4.8 million received for the issuance of common stock. During the first fiscal quarter of 2001, we used $23.5 million in cash for financing activities primarily related to the repurchased $28.1 million par value of our 6% convertible subordinated notes for $24.9 million. Also, during the first fiscal quarter of 2001, we paid another $6.2 million of long-term debt and capital lease obligations. In addition to this, we received $2.4 million in proceeds from the issuance of our common stock and $5.0 million in equity contributions from joint venture partners.

As of June 30, 2001, we had $161.5 million of cash, cash equivalents and restricted cash. As of June 24, 2001, we have issued a $9 million letter of credit secured by $10 million cash. The letter of credit was issued to secure certain of our obligations under our lease agreement for a new headquarters facility in Austin, Texas. The cash collateral for this letter of credit is classified as restricted cash.

Although we can not 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 the foreseeable future.

FACTORS THAT MAY AFFECT FUTURE OPERATING RESULTS

WE HAVE HISTORICALLY EXPERIENCED FLUCTUATIONS IN OUR OPERATING RESULTS AND

EXPECT THESE FLUCTUATIONS TO CONTINUE IN FUTURE PERIODS.

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

o the volume and timing of orders received,

o changes in the mix of our products sold,

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

o competitive pricing pressures,

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

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

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

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

o cyclical semiconductor industry conditions,

o the failure to anticipate changing customer product requirements,

o fluctuations in manufacturing costs,

o disruption in the supply of wafers or assembly services,

o the ability of customers to make payments to us,

o increases in material costs,

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

o product obsolescence, price erosion and other competitive factors.

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

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

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

o proper new product definition,

o timely completion of design and testing of new products,

o achievement of acceptable manufacturing yields, and

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

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

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

OUR PRODUCTS ARE COMPLEX AND COULD CONTAIN DEFECTS, WHICH COULD REDUCE SALES OF THOSE PRODUCTS OR RESULT IN CLAIMS AGAINST US.

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

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

o adverse impact to our customer relationships by the recurrence of significant defects;

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

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

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

THE INTEGRATED CIRCUIT INDUSTRY IS VERY CYCLICAL AND AN INDUSTRY DOWNTURN

WOULD ADVERSELY AFFECT OUR BUSINESS.

The integrated circuit industry is characterized by:

o rapid technological change,

o cyclical market patterns,

o significant price erosion,

o periods of over-capacity and production shortages,

o variations in manufacturing costs and yields, and

o significant expenditures for capital equipment and product development.

The industry has from time to time experienced depressed business conditions. We cannot assure you that any future downturn in the industry will not be severe or that any such downturn will not have a material adverse effect on our business and results of operations. We cannot assure you that we will not experience substantial period-to-period fluctuations in operating costs due to general semiconductor industry conditions or other factors.

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

WE ANNOUNCED TWO RECENT PENDING ACQUISITIONS AND WE EXPECT TO MAKE FUTURE

ACQUISITIONS; ACQUISITIONS INVOLVE NUMEROUS RISKS.

Our business is highly competitive, and as a result, our growth is dependent upon market growth, our ability to enhance our existing products and our ability to introduce new products on a timely basis. One of the ways we are addressing and will continue to address the need to develop new products is through acquiring other companies and technologies. Acquisitions involve numerous risks, including the following:

o difficulties in integrating the operations, technologies, and products of the acquired companies;

o the risk of diverting management's attention from normal daily operations of the business;

o potential difficulties in completing projects associated with in-process research and development;

o risks of entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions;

o initial dependence on unfamiliar supply chains or relatively small supply partners;

o insufficient revenues to offset increased expenses associated with the acquisitions; and

o the potential loss of key employees of the acquired companies.

Mergers and acquisitions of high-technology companies are inherently risky, and no assurance can be given that our previous or future acquisitions will be successful and will not materially adversely affect our business, operating results, or financial condition. We must also manage any growth effectively. Failure to manage growth effectively and successfully integrate acquisitions we made could harm our business and operating results in a material way.

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

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

THE FOLLOWING RISKS ARE ASSOCIATED WITH SERVING THE AUDIO PRODUCTS MARKET:

o decreased average selling prices in the audio IC market due to competitive pricing pressures;

o rapid integration of digital-to-analog converters into processors;

o our ability to respond effectively to the market trend of integrating audio and video products;

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

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

o aggressive competitive pricing pressures in the audio integrated circuits market; and the inability of our audio products to meet cost or performance requirements of the three-dimensional, spatial-effects audio market.

THE FOLLOWING RISKS ARE ASSOCIATED WITH SERVING THE EMBEDDED PROCESSOR

PRODUCTS MARKET:

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

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

o customer delays in their product development and introductions; and

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

THE FOLLOWING RISKS ARE ASSOCIATED WITH SERVING THE PRECISION DATA

CONVERSION MARKET:

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

o customer delays in their product development and introductions;

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

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

THE FOLLOWING RISKS ARE ASSOCIATED WITH OUR INVOLVEMENT IN THE PC MARKETS:

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

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

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

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

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

THE FOLLOWING RISKS ARE ASSOCIATED WITH SERVING THE MAGNETIC STORAGE

MARKET:

o significantly reduced demand for our magnetic storage products, due to recent efforts by certain of our customers to contract with our competitors for these products, as well as to develop their own integrated circuits for these products;

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

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

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

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

o our ability to respond effectively to the market trend of integrating hard disk controllers with micro-controllers; and our ability to successfully compete with other firms with greater resources to accomplish the technical obstacles of integration and greater access to the advanced technologies necessary to provide integrated HDD electronic components.

CHANGES IN INDUSTRY-WIDE CAPACITY, AS WELL AS CHANGES IN DEMAND, MAY CAUSE OUR RESULTS TO FLUCTUATE; THESE CHANGES HAVE RESULTED AND COULD IN THE FUTURE RESULT IN SIGNIFICANT INVENTORY WRITE-DOWNS.

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

In addition, current negative trends in global economic conditions, in addition to negative trends in the semiconductor industry, make it particularly difficult to predict product demand. We believe that we have taken appropriate reserves and that we will be able to sell our current inventory according to our estimates; however, additional inventory write-downs may be necessary in the event we cannot sell our inventory in the anticipated time frame.

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

COSTLY LONG-TERM SUPPLY ARRANGEMENTS TO SECURE FOUNDRY CAPACITY.

We currently purchase all of our wafers from outside foundries. Market conditions could result in wafers being in short supply and prevent us from having adequate supply to meet our customer requirements. Any prolonged inability to utilize our foundries as a result of fire, natural disaster or otherwise would have a material adverse effect on our financial condition and results of operations. If we are not able to obtain additional foundry capacity as required, our business could be harmed in the following ways: (i) our relationships with our customers would be harmed and consequently our sales would likely be reduced; and (ii) we may be forced to purchase wafers or packaging from higher cost suppliers or to pay expediting charges to obtain additional supply

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

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

FUNCTIONS FOR US.

We depend on third-party subcontractors in Asia for the supply and packaging of our products. International operations and sales may be subject to political and economic risks, including political instability, currency controls, exchange rate fluctuations, and changes in import/export regulations, tariff and freight rates. Although we seek to reduce our dependence on our sole and limited source suppliers, this concentration of suppliers and manufacturing operations in Asia subjects us to the risks of conducting business internationally, including political and economic conditions in Asia. Disruption or termination of our supply or manufacturing could occur, and such disruptions could harm our business and operating results.

WE HAVE SIGNIFICANT INTERNATIONAL SALES AND RISKS ASSOCIATED WITH 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 76% and 74% of our net sales during the first quarter fiscal 2002 and 2001, respectively. We expect export sales to continue to represent a significant portion of product sales. This reliance on sales internationally subjects us to the risks of conducting business internationally, including political and economic conditions. For example, the financial instability in a given region, such as Asia, may have an adverse impact on the financial position of end users in the region which could impact future orders and/or the ability of such users to pay us or our customers, which could also impact the ability of such customers to pay us. While we expect to carefully evaluate the collection risk related to the financial position of customers and potential customers in structuring the terms of sale, in determining whether to accept sales orders, and in evaluating the recognition of revenue, if a region's volatility harms the financial position of our customers, our results of operations could be harmed. Our international sales operations involve a number of other risks, including:

o unexpected changes in regulatory requirements;

o changes in diplomatic and trade relationships;

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

o tariffs and other barriers and restrictions; and

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

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

POTENTIAL INTELLECTUAL PROPERTY CLAIMS AND LITIGATION COULD SUBJECT US TO

SIGNIFICANT LIABILITY FOR DAMAGES AND COULD INVALIDATE OUR PROPRIETARY RIGHTS.

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

The integrated circuit industry is characterized by frequent litigation regarding patent and other intellectual property rights. We cannot assure you that any patent owned by us will not be invalidated, circumvented or challenged, that rights granted 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. In addition, effective copyright and trade secret protection may be unavailable or limited in certain foreign countries. We cannot assure you that steps taken by us to protect our intellectual property will be adequate or that our competitors will not independently develop or patent substantially equivalent or superior technologies.

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

STRONG COMPETITION IN THE HIGH-PERFORMANCE INTEGRATED CIRCUIT MARKET MAY

HARM OUR BUSINESS.

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

o product features, reliability, performance and price;

o the diversity and timing of new product introductions;

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

o product quality;

o efficiency of production; and

o customer support

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

In addition, our future success depends, in part, on the continued service of our key engineering, marketing, sales, manufacturing, support, and executive personnel, and on our ability to continue to attract, retain, and motivate qualified personnel. The competition for such employees is intense, and the loss of the services of one or more of these key personnel could adversely affect our business.

IF WE ARE UNABLE TO MAKE CONTINUED SUBSTANTIAL INVESTMENTS IN RESEARCH AND

DEVELOPMENT, WE MAY NOT BE ABLE TO SELL OUR PRODUCTS.

We must continue to make substantial investments in research and development 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, resulting in the need to change the focus of our research and development and product strategies, and disrupting our business significantly.

WE ARE A PARTY TO LITIGATION WITH AN ENTITY FROM WHICH WE HAVE A

SIGNIFICANT ACCOUNT RECEIVABLE.

On July 5, 2001, Western Digital Corporation and its Malaysian subsidiary, Western Digital (M) SDN, BHD, filed a lawsuit against us in the Superior Court of the State of California, Orange County. The plaintiffs have alleged breach of contract, breach of the covenant of good faith and fair dealing, promissory estoppel, declaratory relief, unjust enrichment, restitution, unfair trade practices and declaratory relief. The basis for this complaint relates to negotiations regarding prices and commitments regarding the guaranteed purchase of wafers. The plaintiffs seek damages in excess of $60 million. This suit was filed shortly after we made demand upon the plaintiffs to fulfill their purchase obligations with regard to the wafers in question. The plaintiffs currently owe us $27 million for products we have shipped, as well as $32 million in additional non-cancelable orders placed with us that have been canceled. While we believe the claims asserted against us are without merit and we plan to make various counterclaims, these amounts due us may not be paid until the resolution of this litigation, if at all.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Reference is made to Part II, Item 7a, Quantitative and Qualitative Disclosures About Market Risk, in the Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 2001.

PART II

ITEM 1. LEGAL PROCEEDINGS

On July 5, 2001, Western Digital Corporation and its Malaysian subsidiary, Western Digital (M) SDN, BHD, filed a lawsuit against us in the Superior Court of the State of California, Orange County. The plaintiffs have alleged breach of contract, breach of the covenant of good faith and fair dealing, promissory estoppel, declaratory relief, unjust enrichment, restitution, unfair trade practices and declaratory relief. The basis for this complaint relates to negotiations regarding prices and commitments regarding the guaranteed purchase of wafers. The plaintiffs seek damages in excess of $60 million. This suit was filed shortly after we made demand upon the plaintiffs to fulfill their purchase obligations with regard to the wafers in question. We are evaluating various counterclaims. We believe the asserted claims are without merit and will defend ourselves vigorously.

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

We are involved in some litigation that, while the outcome of which cannot be predicted with certainty, is not expected to have a material adverse effect on us.

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

At the annual meeting of stockholders of Cirrus Logic, Inc. on July 25, 2001, the stockholders voted on five proposals as reflected below:

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

David French	For: 67,307,728	Against: 974,643	Abstain: 0	Broker Non-Votes: 0
D. James Guzy	For: 63,759,692	Against: 4,522,679	Abstain: 0	Broker Non-Votes: 0
Michael L. Hackworth	For: 61,853,910	Against: 6,428,461	Abstain: 0	Broker Non-Votes: 0
Suhas S. Patil	For: 67,185,417	Against: 1,096,954	Abstain: 0	Broker Non-Votes: 0
Walden C. Rhines	For: 67,782,587	Against: 499,784	Abstain: 0	Broker Non-Votes: 0
Robert H. Smith	For: 67,732,291	Against: 550,080	Abstain: 0	Broker Non-Votes: 0

o The second matter voted on was a proposal to approve an amendment to the 1996 Stock Option Plan, increasing the number of shares of common stock available for grant under the plan by 3,300,000 shares. The following table sets forth the votes in such election:

For: 39,340,470	Against: 28,744,886	Abstain: 197,015	Broker Non-Votes: 0

o The third matter voted on was a proposal to approve an amendment to the 1990 Directors' Stock Option Plan, increasing the number of shares of common stock available for grant under the plan by 150,000 shares. The following table sets forth the votes in such election:

For: 47,459,481	Against: 20,651,777	Abstain: 171,113	Broker Non-Votes: 0

o The fourth matter voted on was a proposal to approve an amendment to the Second Amended and Restated 1989 Employee Stock Purchase Plan, increasing the number of shares of common stock available for grant under the plan by 150,000 shares. The following table sets forth the votes in such election:

For: 66,854,502	Against: 1,290,437	Abstain: 137,432	Broker Non-Votes: 0

o The fifth 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 such election:

For: 68,003,908	Against: 225,069	Abstain: 53,394	Broker Non-Votes: 0

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) None.

(b) Reports on Form 8-K:

We filed no reports on Form 8-K during the quarter ended June 30, 2001, but filed one report subsequent to the end of the fiscal quarter. On July 20, 2001, we filed a Form 8-K announcing definitive agreements to acquire LuxSonor Semiconductors, Inc. and ShareWave, Inc.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

CIRRUS LOGIC, INC.

By: /s/ ROBERT W. FAY
Robert W. Fay
Vice President, Chief Financial Officer

Date: August 10, 2001