CIRRUS LOGIC INC
Form 10-K
June 01, 2010

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

FORM 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For The Fiscal Year Ended March 27, 2010

o 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.

DELAWARE	**2901 Via Fortuna, Austin, TX 78746**	**77-0024818**
(State of incorporation)	**(512) 851-4000**	**(I.R.S. ID)**

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $0.001 Par Value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES o NO þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO þ

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 þ NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

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

The aggregate market value of the registrant s voting and non-voting common equity held by non-affiliates was approximately $307 million based upon the closing price reported on the NASDAQ Global Select Market as of September 25, 2009. Stock held by directors, officers and stockholders owning 5 percent or more of the outstanding common stock were excluded as they may be deemed affiliates. This determination of affiliate status is not a conclusive determination for any other purpose.

As of May 26, 2010, the number of outstanding shares of the registrant s Common Stock, $0.001 par value, was 67,167,486.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the registrant s proxy statement for its annual meeting of stockholders to be held July 23, 2010 is incorporated by reference in Part III of this Annual Report on Form 10-K.

CIRRUS LOGIC, INC.

FORM 10-K

For The Fiscal Year Ended March 27, 2010

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PART I

ITEM 1. *Business*

Cirrus Logic, Inc. (Cirrus Logic, Cirrus, We, Us, Our, or the Company) develops high-precision, analog and mixed-signal integrated circuits (ICs) for a broad range of audio and energy markets. Building on our diverse analog mixed-signal patent portfolio, Cirrus Logic delivers highly optimized products for consumer and commercial audio, automotive entertainment, and targeted industrial and energy-related applications. We develop ICs, board-level modules and hybrids for high-power amplifier applications branded as the Apex Precision Power™ (Apex) line of products, and provide complete system reference designs based on our technology that enable our customers to bring products to market in a timely and cost-effective manner.

We were incorporated in California in 1984, became a public company in 1989 and were reincorporated in the State of Delaware in February 1999. Our primary facility housing engineering, sales and marketing, and administrative functions is located in Austin, Texas. In addition, we have an administrative and assembly facility in Tucson, Arizona, as well as sales locations throughout the United States. We also serve customers from international sales offices in Europe and Asia, including the People s Republic of China, Hong Kong, South Korea, Japan, Singapore, Taiwan and the United Kingdom. Our common stock, which has been publicly traded since 1989, is listed on the NASDAQ Global Select Market under the symbol CRUS.

We maintain a Web site with the address www.cirrus.com. We are not including the information contained on our Web site as a part of, or incorporating it by reference into, this Annual Report on Form 10-K. We make available free of charge through our Web site our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission (the SEC). To receive a free copy of this Form 10-K, please forward your written request to Cirrus Logic, Inc., Attn: Investor Relations, 2901 Via Fortuna, Austin, Texas 78746, or via email at InvestorRelations@cirrus.com. In addition, the SEC maintains a website at http://www.sec.gov that contains reports, proxy and information statements filed electronically with the SEC by Cirrus Logic.

Background of the Semiconductor Industry

In general, the semiconductor industry produces three types of products: analog, digital and mixed-signal. Analog semiconductors process a continuous range of signals that can represent functions such as temperature, speed, pressure and sound. Digital semiconductors process information represented by discrete values, for example, 0s and 1s. Mixed-signal semiconductors combine analog and digital circuits in a single product. The design of the analog component of a mixed-signal IC is particularly complex and difficult, and requires experienced engineers to optimize speed, power and resolution within standard manufacturing processes.

The convergence and sophistication of our customers products, such as portable audio applications, home entertainment and automotive audio devices is made possible in part by advances in semiconductor technology. Semiconductor companies are attempting to differentiate their products based on offering new features and functionality to consumers, while at the same time shrinking product sizes, reducing power consumption, and lowering overall system costs.

Due to the extremely high costs involved in developing and operating a wafer fabrication facility, many semiconductor companies, including Cirrus, rely on third party foundries to manufacture their IC s. We believe that

our fabless manufacturing model significantly reduces our capital requirements and allows us to focus our resources on design, development, and marketing of our ICs.

Segments

We determine our operating segments in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 280, *Segment Reporting*. Our Chief Executive Officer (CEO) has been identified as the chief operating decision maker as defined by FASB ASC Topic 280.

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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, supply chain management, various research and development and engineering support, in addition to the general and administrative functions of human resources, legal, finance and information technology. Therefore, there is no complete, discrete financial information maintained for these product lines. Commencing with fiscal year 2009, we report revenue in two product categories: audio products and energy products. The energy product category had previously been referred to as industrial, but has been revised to reflect our focus on integrated circuits designed for a variety of energy exploration, measurement and control applications. See Note 15, *Segment Information,* of the Notes to Consolidated Financial Statements contained in Item 8 for further details including revenues by product line, revenues by geographic locations, and for property, plant and equipment, net, by geographic locations.

Markets and Products

The following provides a detailed discussion regarding our audio and energy product lines:

Audio Products: High-precision analog and mixed-signal components, as well as audio digital signal processor (DSP) products for consumer, professional and automotive entertainment markets.

Energy Products: High-precision analog and mixed-signal components for energy-related applications, such as energy measurement, energy exploration and energy control systems. Energy products also include ICs, board-level modules and hybrids for high-power pulse width modulation (PWM) and power amplifier applications.

AUDIO PRODUCTS

We are a recognized leader in analog and mixed-signal audio converter and audio DSP products that enable today s new consumer, professional and automotive entertainment applications. Our products include analog-to-digital converters (ADCs), digital-to-analog converters (DACs), chips that integrate ADCs and DACs into a single IC (codecs), digital interface ICs, volume controls and digital amplifiers, as well as audio DSPs for consumer electronics applications such as audio/video receivers (AVRs) and digital TVs, and CobraNet® ICs and modules for networked audio applications. Our broad portfolio of approximately 250 active proprietary products includes the following publicly available product, which has been added in the past fiscal year:

- The CS3511 is a stereo 10-watt analog-input Class-D audio amplifier IC ideal for consumer audio applications such as active media speakers, docking stations, hybrid radios, flat-panel displays and mini-shelf home stereo systems. The CS3511 uses an advanced Delta Sigma modulator with a patented architecture and unique technologies to achieve ultra-low distortion and significantly reduced electromagnetic interference (EMI) compared to other stereo 10-watt Class-D amplifier ICs.

Our products are used in a wide array of consumer applications, including AVRs, DVD and Blu-ray Disc players, complete home theater systems, set-top boxes, portable media players, smart phones, gaming devices, sound cards and digital televisions. Applications for products within professional markets include digital mixing consoles, multitrack digital recorders and effects processors. Applications for products within automotive markets include amplifiers, satellite radio systems, telematics and multi-speaker car-audio systems. In networked digital audio applications, our proprietary CobraNet controller ICs and modules enable delivery of uncompressed digital audio over Ethernet networks, co-existing with standard Ethernet network data traffic.

ENERGY PRODUCTS

We provide high-precision analog and mixed-signal ICs for targeted energy control, energy measurement and energy exploration applications, as well as ICs, board-level modules, and hybrids from the Apex Precision Power brand of products for high-power PWM and power amplifier applications. We have more than 450 active proprietary products which include ADCs, DACs, linear amplifiers, PWM amplifiers and successive

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approximation register (SAR) converters, and amplifier ICs. Our products are used in a wide array of high-precision, energy measurement applications including motor control, consumer utility, power measurement, energy exploration, and high-power systems. New additions to our proprietary product portfolio in the past fiscal year include:

- The SA303-IHZ and SA53-IHZ, within the company s Apex Precision Power product line, are high-current pulse width modulated (PWM) ICs for driving three-phase brush and brushless DC motors. As follow-on products to the 2008 launch of its award-winning SA3XX and SA5X series of single-packaged solutions, these new ICs offer a lower per unit cost of up to 40 percent for industrial motor applications such as fans, pumps and robotics operating on supplies up to 60 V and requiring output current in the 3 A range (10 A PEAK).

- The CS5374 is a fourth-generation IC that targets energy exploration applications that provides excellent noise and distortion performance of 127 dB signal-to-noise rate and 118 dB THD (total harmonic distortion) delivering the high-precision performance needed for marine streamers used to detect potential sources of energy deep within the ocean floor.

- The PA107DP and MP103FC high-voltage, high-speed power amplifiers, part of the company s Apex Precision Power product line, deliver new levels of performance for the piezoelectric driver market. Both devices are operational with voltage supplies of up to 200 V. The PA107DP is an attractive option for driving piezos used in medical imaging and ultrasound applications, as well as programmable power supplies for the ATE market.

In fiscal year 2011, the company plans to introduce its first power factor correction (PFC) controller chips, which are used in such applications as power supplies and lighting ballasts. The PFC controllers are designed to bring new features and performance enabled through its digital EXL Core™ technology to a market that has been traditionally dominated by analog products. The EXL Core technology will be a key component of the company s long-term product roadmap in energy products to help customers develop smarter, greener energy products.

Customers, Marketing, and Sales

We offer approximately 700 products to more than 3,000 end-customers worldwide through both direct and indirect sales channels. Our major customers are among the world s leading electronics manufacturers. We target both large existing and emerging growth consumer electronic and energy markets that derive value from our expertise in advanced analog and mixed-signal design processing, systems-level integrated circuit engineering and embedded software development. We derive our sales both domestically and from a variety of locations across the world, including the People s Republic of China, the European Union, Hong Kong, Japan, South Korea, Taiwan, and the United Kingdom. Our domestic sales force includes a network of regional direct sales offices located in California, Massachusetts, Ohio, Nevada, Illinois, North Carolina, and Texas. International sales offices and staff are located in France, Germany, Hong Kong, Shanghai and Shenzhen in the People s Republic of China, Singapore, South Korea, Taiwan, Japan and the United Kingdom. We supplement our direct sales force with external sales representatives and distributors. Our technical support staff is located in Texas and Arizona. Our worldwide sales force provides geographically specific support to our customers and specialized selling of product lines with unique customer bases. See Note 15, *Segment Information,* of the Notes to Consolidated Financial Statements contained in Item 8 for further detail and for additional disclosure regarding revenues by geographic locations, and for property, plant and equipment, net, by geographic locations.

Since the components we produce are largely proprietary and generally not available from second sources, we consider our end customer to be the entity specifying the use of our component in their design. These end customers may then purchase our products directly from us, from an external sales representative or distributor, or through a

third party manufacturer contracted to produce their product. For fiscal years 2010 and 2009, our ten largest customers represented approximately 54 percent and 36 percent of our sales. We had one end customer, Apple Inc., that purchased through multiple contract manufacturers and represented approximately 36 percent and 16 percent of the Company s total sales for fiscal years 2010 and 2009, respectively. Further,

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we had one distributor, Avnet Inc., that represented 26 percent, 33 percent, and 27 percent of our sales for fiscal years 2010, 2009, and 2008 respectively. No other customer or distributor represented more than 10 percent of net sales in fiscal years 2010, 2009, or 2008.

Manufacturing

As a fabless semiconductor company, we contract with third parties for wafer fabrication and nearly all of our assembly and test operations. The company owns a 54,000 square foot facility in Tucson, Arizona, which serves as the assembly and test facility for its Apex product line. With the exception of these Apex products, our outsourced manufacturing strategy allows us to concentrate on our design strengths, minimize fixed costs and capital expenditures while giving us access to advanced manufacturing facilities, and provide the flexibility to source multiple leading-edge technologies through strategic relationships. After wafer fabrication by the foundry, third-party assembly vendors package the wafer die. The finished products are then tested before shipment to our customers. We use multiple wafer foundries, assembly sources and test houses in the production of our inventory. While we do have some redundancy of fabrication processes by using multiple outside foundries, any interruption of supply by one or more of these foundries could materially impact us. As a result, we maintain some amount of business interruption insurance to help reduce the risk of wafer supply interruption, but we are not fully insured against such risk. Our supply chain management organization is responsible for the management of all aspects of the manufacturing, assembly, and testing of our products, including process and package development, test program development, and production testing of products in accordance with our ISO-certified quality management system.

Although our products are made from basic materials (principally silicon, metals and plastics), all of which are available from a number of suppliers, capacity at wafer foundries sometimes becomes constrained. The limited availability of certain materials may impact our suppliers ability to meet our demand needs or impact the price we are charged. The prices of certain other basic materials, such as metals, gases and chemicals used in the production of circuits can increase as demand grows for these basic commodities. In most cases, we do not procure these materials ourselves; nevertheless, we are reliant on such materials for producing our products because our outside foundry and package and test subcontractors must procure them. To help mitigate risks associated with constrained capacity, we use multiple foundries.

Patents, Licenses and Trademarks

We rely on trade secret, patent, copyright and trademark laws to protect our intellectual property, products, and technology. We intend to continue this practice in the future. As of March 27, 2010, we held 1,090 U.S. patents, 112 U.S. pending patent applications and various corresponding international patents and applications. Our U.S. patents expire in calendar years 2010 through 2028.

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

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

Research and Development

We concentrate our research and development efforts on the design and development of new products for each of our principal markets. We also fund certain advanced-process technology development, as well as other emerging product opportunities. Expenditures for research and development in fiscal years 2010, 2009 and 2008 were $51.4 million, $44.3 million and $48.5 million, respectively. These amounts include amortization of acquired intangibles of $1.6 million, $1.5 million, and $1.4 million, in fiscal years 2010, 2009, and 2008, respectively. Our future success is highly dependent upon our ability to develop complex new products, to transfer new products to volume production, to introduce them into the marketplace in a timely fashion, and

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to have them selected for design into products of systems manufacturers. Our future success may also depend on assisting our customers with integration of our components into their new products, including providing support from the concept stage through design, launch and production ramp.

Competition

Markets for our products are highly competitive and we expect that competition will continue to increase. Our ability to compete effectively and to expand our business will depend on our ability to continue to recruit key engineering talent, to execute on new product developments, to persuade customers to design-in these new products into their applications, and to provide lower-cost versions of existing products. We compete with other semiconductor suppliers that offer standard semiconductors, application-specific standard product and fully customized ICs, including embedded software, chip and board-level products.

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

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

Product life cycles may vary greatly by product category. For example, many consumer electronic devices have shorter design-in cycles; therefore, our competitors have increasingly frequent opportunities to achieve design wins in next-generation systems. Conversely, this also provides us frequent opportunities to displace competitors in products that have previously not utilized our design. The industrial and automotive markets typically have longer life cycles, which provide continued revenue streams over long periods of time.

Backlog

Sales are made primarily pursuant to standard short-term purchase orders for delivery of standard products. The quantity actually ordered by the customer, as well as the shipment schedules, are frequently revised, without significant penalty, to reflect changes in the customer s needs. The majority of our backlog is typically requested for delivery within six months. In markets where the end system life cycles are relatively short, customers typically request delivery in six to ten weeks. A backlog analysis at any given time gives little indication of our future business except on a short-term basis, principally within the next 60 days.

We utilize backlog as an indicator to assist us in production planning. However, backlog is influenced by several factors including market demand, pricing, and customer order patterns in reaction to product lead times. Quantities actually purchased by customers, as well as prices, are subject to variations between booking and delivery because of changes in customer needs or industry conditions. As a result, we believe that our backlog at any given time is an incomplete indicator of future sales.

Employees

As of March 27, 2010, we had 505 full-time employees, of whom 49 percent were engaged in research and product development activities, 35 percent in sales, marketing, general and administrative activities, and 16 percent in manufacturing-related activities. Our future success depends, in part, on our ability to continue to attract, retain and

motivate highly qualified technical, marketing, engineering, and administrative personnel.

We have never had a work stoppage and none of our employees are represented by collective bargaining agreements. We consider our employee relations to be good.

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Forward Looking Statements

This Annual Report on Form 10-K and certain information incorporated herein by reference contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities the Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements included or incorporated by reference in this Annual Report on Form 10-K, other than statements that are purely historical, are forward-looking statements. In some cases, forward-looking statements are identified by words such as expect, anticipate, target, project, believe, goals, estimates, and intend. Variations of these types of wor expressions are intended to identify these forward-looking statements. Any statements that refer to our plans, expectations, strategies or other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned that these forward-looking statements are predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Among the important factors that could cause actual results to differ materially from those indicated by our forward-looking statements are those discussed in *Item 1A Risk Factors* and elsewhere in this report, as well as in the documents filed by us with the SEC, specifically the most recent reports on Form 10-Q and 8-K, each as it may be amended from time to time.

We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this report, and we undertake no obligation to update this information to reflect events or circumstances after the filing of this report with the SEC, except as required by law. All forward-looking statements, expressed or implied, included in this Form 10-K and attributable to Cirrus are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that we may make or persons acting on our behalf may issue. We undertake no obligation to revise or update publicly any forward-looking statement for any reason.

Item 1A. ***Risk Factors***

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 Cirrus Logic s filings with the 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.

We depend on a limited number of customers for a substantial portion of our sales, and the loss of, or a significant reduction in orders from, any key customer could significantly reduce our sales.

While we generate sales from a broad base of customers worldwide, the loss of any of our key customers, or a significant reduction in sales to any one of them, would significantly reduce our sales and adversely affect our business. For the twelve month period ending March 27, 2010, our ten largest customers represented approximately 54 percent of our revenues. For the twelve month period ending March 27, 2010, we had one end customer, Apple Inc., that purchased through multiple contract manufacturers and represented approximately 36 percent of the Company s total sales. For the twelve month period ending March 27, 2010, we had one distributor, Avnet Inc., that represented 26 percent of our sales.

We may not be able to maintain or increase sales to certain of our key customers for a variety of reasons, including the following:

§

most of our customers can stop incorporating our products into their own products with limited notice to us and suffer little or no penalty;

§ our agreements with our customers typically do not require them to purchase a minimum quantity of our products;

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- many of our customers have pre-existing or concurrent relationships with our current or potential competitors that may affect the customers decisions to purchase our products;

- our customers face intense competition from other manufacturers that do not use our products; and

- our customers regularly evaluate alternative sources of supply in order to diversify their supplier base, which increases their negotiating leverage with us and their ability to obtain components from alternative sources.

These relationships often require us to develop new products that may involve significant technological challenges. Our customers frequently place considerable pressure on us to meet their tight development schedules. Accordingly, we may have to devote a substantial amount of resources to strategic relationships, which could detract from or delay our completion of other important development projects or the development of next generation products and technologies. Delays in development could impair our relationships with strategic customers and negatively impact sales of the products under development.

We have historically experienced fluctuations in our operating results and expect these fluctuations to continue in future periods, which may result in volatility in our stock price.

Our quarterly and annual operating results are affected by a wide variety of factors that could materially and adversely affect our net sales, gross margin, and operating results. If our operating results fall below expectations of market analysts or investors, the market price of our common stock could decrease significantly. We are subject to business cycles and it is difficult to predict the timing, length, or volatility of these cycles. These business cycles may create pressure on our sales, gross margin, and/or operating results.

Factors that could cause fluctuations and materially and adversely affect our net sales, gross margin and operating results include, but are not limited to:

- 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;

- excess or obsolete inventory;

- 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;

- reduction of manufacturing yields;

-

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.

We may be adversely impacted by current global economic conditions. As a result, our financial results and the market price of our common shares may decline.

Current global economic conditions could make it difficult for our customers, our suppliers, and us to accurately forecast and plan future business activities, and could cause global businesses to defer or reduce spending on our products. During challenging economic times our customers and distributors may face issues gaining timely access to sufficient credit, which could impact their ability to make timely payments to us. If that were to occur, we may be required to increase our allowance for doubtful accounts and our days sales outstanding would increase.

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We cannot predict the timing, strength, or duration of any economic slowdown or subsequent economic recovery. If the economy or markets in which we operate were to deteriorate, our business, financial condition, and results of operations will likely be materially and/or adversely affected.

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

Because we sell products in the consumer entertainment market, we are likely to be affected by seasonality in the sales of our products. 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 that we operate in or sell into could have a material adverse effect on our business.

Because we do not have long-term agreements with our customers and our standard terms and conditions of sale provide that a buyer may cancel or reschedule orders on short notice without incurring significant penalties, our sales and operating results in any quarter are difficult to forecast and are significantly dependent upon customer orders received and fulfilled in that quarter.

In general, we do not have long-term purchase agreements with customers. Our customers generally place purchase orders for deliveries no more than three months in advance. These purchase orders generally have limited cancellation or rescheduling penalty provisions. Therefore, cancellations, reductions, or delays of orders from any significant customer could have a material adverse effect on our business, financial condition, and results of operations.

A significant portion of our sales and earnings in any quarter depends upon customer orders for our products that we receive and fulfill in that quarter. Because our expense levels are based in part on our expectations as to future revenue and to a large extent are fixed in the short term, we likely will be unable to adjust spending on a timely basis to compensate for any unexpected shortfall in sales. Accordingly, any significant shortfall of sales in relation to our expectations could hurt our operating results.

Our dependence on third-party manufacturing and supply relationships increases the risk that we will not have an adequate supply of products to meet demand or that our cost of materials will be higher than expected.

We depend upon third parties to manufacture, assemble, package or test certain of our products. As a result, we are subject to risks associated with these third parties, including:

- § reduced control over delivery schedules and quality;
- § inadequate manufacturing yields and excessive costs;
- § difficulties selecting and integrating new subcontractors;
- § limited warranties on products supplied to us;
- § potential increases in prices; and
- § potential misappropriation of our intellectual property.

Our outside foundries generally manufacture our products on a purchase order basis, and we have few long-term supply arrangements with these suppliers. We have less control over delivery schedules, manufacturing yields and costs than competitors with their own fabrication facilities. A manufacturing disruption experienced by one or more of our outside foundries or a disruption of our relationship with an outside foundry, including discontinuance of our

products by that foundry, would negatively impact the production of certain of our products for a substantial period of time.

Difficulties associated with adapting our technology and product design to the proprietary process technology and design rules of outside foundries can lead to reduced yields of our products. The process technology of an outside foundry is typically proprietary to the manufacturer. Since low yields may result from either design or process technology failures, yield problems may not be effectively determined or resolved

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until an actual product exists that can be analyzed and tested to identify process sensitivities relating to the design rules that are used. As a result, yield problems may not be identified until well into the production process, and resolution of yield problems may require cooperation between us and our manufacturer. This risk could be compounded by the offshore location of certain of our manufacturers, increasing the effort and time required to identify, communicate and resolve manufacturing yield problems. Manufacturing defects that we do not discover during the manufacturing or testing process may lead to costly product recalls. These risks may lead to increased costs or delayed product delivery, which would harm our profitability and customer relationships.

If the foundries or subcontractors we use to manufacture our products discontinue the manufacturing processes needed to meet our demands, or fail to upgrade their technologies needed to manufacture our products, we may be unable to deliver products to our customers, which could materially adversely affect our operating results. The transition to the next generation of manufacturing technologies at one or more of our outside foundries could be unsuccessful or delayed.

Our requirements typically represent a very small portion of the total production of the third-party foundries. As a result, we are subject to the risk that a producer will cease production of an older or lower-volume process that it uses to produce our parts. We cannot assure you that our external foundries will continue to devote resources to the production of parts for our products or continue to advance the process design technologies on which the manufacturing of our products are based. Each of these events could increase our costs, lower our gross margin, cause us to hold more inventories or materially impact our ability to deliver our products on time. As our volumes decrease with any third-party foundry, the likelihood of unfavorable pricing increases.

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.

We rely on independent foundries and assembly and test houses to manufacture, or provide components for, our products. Our reliance on these third party suppliers involves certain risks and uncertainties. For example, 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, if we experience supply constraints or manufacturing problems at a particular supplier, we could be required to switch suppliers or qualify additional suppliers. Switching and/or qualifying additional suppliers could be an expensive process and take as long as six to twelve months to complete, which could result in material adverse fluctuations to our operating results.

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 in the accuracy of our customers forecasts, 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.

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 decline and we are unable to increase our unit volumes,

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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 sales shortfalls. Because of these factors, we may experience material adverse fluctuations in our future operating results on a quarterly or annual basis.

Our failure to develop and timely introduce new products that gain market acceptance 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. New product introductions involve significant risks. For example, delays in new product introductions or less-than-anticipated market acceptance of our new products are possible and would have an adverse effect on our sales and earnings. 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, but not limited to:

- § 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 fabrication, assembly, and test capacity;
- § market acceptance of our products and the products of our customers; and
- § obtaining and retaining industry certification requirements.

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 new or existing customers products. We may not 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 provide assurances 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, but are not limited to:

- § damage to our reputation;
- § a material recall and replacement costs for product warranty and support;

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- payments to our customer related to the 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 that are incorporated 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 have contractually limited our financial exposure, we cannot provide assurances that we will be able to obtain sufficient insurance, in terms of amounts or scope, to provide us with adequate coverage against all potential liability.

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 represented 79 percent, 68 percent, and 62 percent of our net sales in fiscal years 2010, 2009, and 2008, respectively. We expect export sales to continue to represent a significant portion of product sales. This reliance on international sales subjects us to the risks of conducting business internationally, including risks associated with political and economic 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, especially in Asia. For example, the financial instability in a given region 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, but not limited to:

- 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 non-U.S. companies or other domestic companies entering the non-U.S. markets in which we operate;
- longer sales and payment cycles;
- problems in collecting accounts receivable;

§ political instability; and