

CIRRUS LOGIC INC
Form 10-Q
August 02, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 24, 2017
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from ____ to ____
Commission File Number 0-17795
CIRRUS LOGIC, INC.

(Exact name of registrant as specified in its charter)

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

800 W. 6th Street, Austin, TX 78701
(Address of principal executive offices)

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

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

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

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>	Emerging growth company <input type="checkbox"/>
---	--	--	---	--

(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of the registrant's common stock, \$0.001 par value, outstanding as of July 28, 2017 was 63,802,273.

CIRRUS LOGIC, INC.
FORM 10-Q QUARTERLY REPORT
QUARTERLY PERIOD ENDED JUNE 24, 2017
TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Condensed Balance Sheets - June 24, 2017 (unaudited) and March 25, 2017	<u>3</u>
Consolidated Condensed Statements of Income (unaudited) - Three Months Ended June 24, 2017 and June 25, 2016	<u>4</u>
Consolidated Condensed Statements of Comprehensive Income (unaudited) - Three Months Ended June 24, 2017 and June 25, 2016	<u>5</u>
Consolidated Condensed Statements of Cash Flows (unaudited) - Three Months Ended June 24, 2017 and June 25, 2016	<u>6</u>
Notes to Consolidated Condensed Financial Statements (unaudited)	<u>7</u>

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>15</u>
---	-----------

Item 3. Quantitative and Qualitative Disclosures about Market Risk	<u>20</u>
--	-----------

Item 4. Controls and Procedures	<u>20</u>
---------------------------------	-----------

PART II - OTHER INFORMATION

Item 1. Legal Proceedings	<u>20</u>
---------------------------	-----------

Item 1A. Risk Factors	<u>21</u>
-----------------------	-----------

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>22</u>
---	-----------

Item 3. Defaults Upon Senior Securities	<u>22</u>
---	-----------

Item 4. Mine Safety Disclosures	<u>22</u>
---------------------------------	-----------

Item 5. Other Information	<u>22</u>
---------------------------	-----------

Item 6. Exhibits	<u>22</u>
------------------	-----------

Signatures	<u>23</u>
------------	-----------

Part I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CIRRUS LOGIC, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

(in thousands)

	June 24, 2017 (unaudited)	March 25, 2017 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	\$163,918	\$351,166
Marketable securities	11,380	99,813
Accounts receivable, net	162,437	119,974
Inventories	202,429	167,895
Prepaid assets	27,484	24,987
Other current assets	10,858	12,093
Total current assets	578,506	775,928
Long-term marketable securities	134,851	—
Property and equipment, net	170,829	168,139
Intangibles, net	143,107	135,188
Goodwill	287,049	286,767
Deferred tax assets	31,971	32,841
Other assets	20,337	14,607
Total assets	\$1,366,650	\$1,413,470
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$85,995	\$73,811
Accrued salaries and benefits	31,113	40,190
Software license agreements	13,676	14,990
Other accrued liabilities	15,091	15,084
Total current liabilities	145,875	144,075
Long-term liabilities:		
Debt	—	60,000
Software license agreements	5,297	3,146
Other long-term liabilities	54,773	54,557
Total long-term liabilities	60,070	117,703
Stockholders' equity:		
Capital stock	1,272,570	1,259,279
Accumulated deficit	(112,258)	(107,014)
Accumulated other comprehensive (loss) income	393	(573)
Total stockholders' equity	1,160,705	1,151,692
Total liabilities and stockholders' equity	\$1,366,650	\$1,413,470

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

CIRRUS LOGIC, INC.
 CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(in thousands, except per share amounts; unaudited)

	Three Months Ended	
	June 24, 2017	June 25, 2016
Net sales	\$320,735	\$259,428
Cost of sales	159,019	132,743
Gross profit	161,716	126,685
Operating expenses		
Research and development	83,557	73,934
Selling, general and administrative	30,859	30,540
Total operating expenses	114,416	104,474
Income from operations	47,300	22,211
Interest income	929	267
Interest expense	(335)	(956)
Other income (expense)	(19)	147
Income before income taxes	47,875	21,669
Provision for income taxes	4,963	3,598
Net income	42,912	18,071
Basic earnings per share	\$0.67	\$0.29
Diluted earnings per share	\$0.64	\$0.27
Basic weighted average common shares outstanding	64,097	62,450
Diluted weighted average common shares outstanding	67,160	65,723

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

CIRRUS LOGIC, INC.
 CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
 (in thousands; unaudited)

	Three Months	
	Ended	
	June 24, 2017	June 25, 2016
Net income	\$42,912	\$18,071
Other comprehensive income (loss), before tax		
Foreign currency translation	290	188
Unrealized gain on marketable securities	34	67
Actuarial gain on pension plan	792	—
Reclassification of actuarial gain to net income	—	(27)
Provision for income taxes	(150)	(1)
Comprehensive income	\$43,878	\$18,298

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

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

	Three Months Ended	
	June 24, 2017	June 25, 2016
Cash flows from operating activities:		
Net income	\$42,912	\$18,071
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	19,596	17,912
Stock compensation expense	11,403	9,310
Deferred income taxes	435	(1,400)
Loss on retirement or write-off of long-lived assets	152	95
Other non-cash adjustments	(3,940)	97
Net change in operating assets and liabilities:		
Accounts receivable, net	(42,463)	(52,361)
Inventories	(34,534)	(12,028)
Other assets	(283)	1,377
Accounts payable and other accrued liabilities	194	29,283
Income taxes payable	2,712	2,400
Net cash (used in) provided by operating activities	(3,816)	12,756
Cash flows from investing activities:		
Maturities and sales of available-for-sale marketable securities	102,275	30,987
Purchases of available-for-sale marketable securities	(148,674)	(44,743)
Purchases of property, equipment and software	(10,749)	(7,145)
Investments in technology	(20,762)	(3,387)
Net cash used in investing activities	(77,910)	(24,288)
Cash flows from financing activities:		
Principal payments on long-term revolver	(60,000)	—
Issuance of common stock, net of shares withheld for taxes	1,889	2,414
Repurchase of stock to satisfy employee tax withholding obligations	(1,861)	(644)
Repurchase and retirement of common stock	(45,550)	(15,440)
Net cash used in financing activities	(105,522)	(13,670)
Net decrease in cash and cash equivalents	(187,248)	(25,202)
Cash and cash equivalents at beginning of period	351,166	168,793
Cash and cash equivalents at end of period	\$163,918	\$143,591

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

CIRRUS LOGIC, INC.

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(unaudited)

1. Basis of Presentation

The consolidated condensed financial statements have been prepared by Cirrus Logic, Inc. (“Cirrus Logic,” “we,” “us,” “our,” or the “Company”) pursuant to the rules and regulations of the Securities and Exchange Commission (the “Commission”). The accompanying unaudited consolidated condensed financial statements do not include complete footnotes and financial presentations. As a result, these financial statements should be read along with the audited consolidated financial statements and notes thereto for the year ended March 25, 2017, included in our Annual Report on Form 10-K filed with the Commission on May 24, 2017. In our opinion, the financial statements reflect all material adjustments, including normal recurring adjustments, necessary for a fair presentation of the financial position, operating results and cash flows for those periods presented. The preparation of financial statements in conformity with United States (“U.S.”) generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect reported assets, liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates and assumptions. Moreover, the results of operations for the interim periods presented are not necessarily indicative of the results that may be expected for the entire year. Additionally, prior period amounts have been adjusted to conform to current year presentation.

2. Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (ASC Topic 606). The purpose of this ASU is to converge revenue recognition requirements per U.S. GAAP and International Financial Reporting Standards (“IFRS”). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date after public comment supported a proposal to delay the effective date of this ASU to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. The Company is currently in the process of reviewing our customers’ contracts in respect of performance obligation identification and satisfaction, pricing, warranties, and return rights, among other considerations. Though we have not completed the process, the Company currently expects no material modifications to its financial statements upon adoption of this ASU.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The FASB issued this update to increase transparency and comparability by recognizing lease assets and lease liabilities on the balance sheet and disclosing key leasing arrangement details. Lessees would recognize operating leases on the balance sheet under this ASU — with the future lease payments recognized as a liability, measured at present value, and the right-of-use asset recognized for the lease term. A single lease cost would be recognized over the lease term. For terms less than twelve months, a lessee would be permitted to make an accounting policy election to recognize lease expense for such leases generally on a straight-line basis over the lease term. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of this ASU.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU requires credit losses on available-for-sale debt securities to be presented as an allowance rather than a write-down. Unlike current U.S. GAAP, the credit losses could be reversed with changes in estimates, and recognized in current year earnings. This ASU is effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods. Early adoption is permitted for

annual periods beginning after December 15, 2018, including interim periods. The Company is currently evaluating the impact of the adoption of this ASU on our financial statements.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. This ASU relates to income tax consequences of non-inventory intercompany asset transfers. This ASU is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted, as of the beginning of an annual reporting period. The guidance requires companies to apply a modified retrospective approach with a cumulative catch-up adjustment to beginning retained earnings in the period of adoption. The Company early adopted this ASU in the current quarter with a \$0.7 million impact to beginning retained earnings.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The update states that when substantially all of the fair value of the gross assets acquired (or disposed of) is

concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business, and should be treated as an asset acquisition instead. This ASU is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted under specific circumstances, including in an interim period, with prospective application. The Company early adopted this ASU in the current quarter and applied the related guidance in a current quarter asset acquisition.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This ASU eliminates step two of the goodwill impairment test. An impairment charge is to be recognized for the amount by which the current value exceeds the fair value. This ASU is effective for annual periods beginning after December 15, 2019, including interim periods. Early adoption is permitted, for interim or annual goodwill impairment tests performed after January 1, 2017. An entity is required to disclose the nature of and reason for the change in accounting principle upon transition. That disclosure should be provided in the first annual period and in the interim period within the first annual period when the entity initially adopts the amendments in this update. The Company is currently evaluating the impact of this ASU and it will be applied prospectively.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. This ASU applies to any company that changes the terms or conditions of a share-based award, considered a modification. Modification accounting would be applied unless certain conditions were met related to the fair value of the award, the vesting conditions and the classification of the modified award. This ASU is effective for annual periods beginning after December 15, 2017, with early adoption permitted. The standard should be applied prospectively to an award modified on or after the adoption date. The Company is currently evaluating the financial statement impact of this ASU.

3. Marketable Securities

The Company's investments that have original maturities greater than 90 days have been classified as available-for-sale securities in accordance with U.S. GAAP. Marketable securities are categorized on the consolidated condensed balance sheet as short- and long-term marketable securities, as appropriate.

The following table is a summary of available-for-sale securities at June 24, 2017 (in thousands):

As of June 24, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value (Net Carrying Amount)
Corporate debt securities	\$ 133,471	\$ 76	\$ (85)	\$ 133,462
Non-US government securities	11,816	2	(9)	11,809
Certificates of deposit	500	—	—	500
Agency discount notes	459	1	—	460
Total securities	\$ 146,246	\$ 79	\$ (94)	\$ 146,231

The Company typically invests in highly-rated securities with original maturities generally ranging from one to three years. The Company's specifically identified gross unrealized loss of \$94 thousand related to securities with total amortized cost of approximately \$82.9 million at June 24, 2017. No securities have been in a continuous unrealized loss position for more than 12 months as of June 24, 2017. The Company may sell certain of its marketable securities prior to their stated maturities for strategic reasons including, but not limited to, anticipated or actual changes in credit rating and duration management. When evaluating an investment for other-than-temporary impairment, the Company reviews factors including the length of time and extent to which fair value has been below cost basis, the financial

condition of the issuer, changes in market interest rates and whether it is more likely than not the Company will be required to sell the investment before recovery of the investment's cost basis. As of June 24, 2017, the Company does not consider any of its investments to be other-than-temporarily impaired.

The following table is a summary of available-for-sale securities at March 25, 2017 (in thousands):

8

As of March 25, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value (Net Carrying Amount)
Corporate debt securities	33,350	\$ —	—\$ (20)	\$ 33,330
Commercial paper	66,518	—	(35)	66,483
Total securities	\$ 99,868	\$ —	—\$ (55)	\$ 99,813

The Company's specifically identified gross unrealized losses of \$55 thousand related to securities with total amortized cost of approximately \$99.9 million at March 25, 2017. Four securities had been in a continuous loss position for more than 12 months as of March 25, 2017. The gross unrealized loss on these securities was less than one percent of the position value. The Company may sell certain of its marketable securities prior to their stated maturities for strategic reasons including, but not limited to, anticipated or actual changes in credit rating and duration management. When evaluating an investment for other-than-temporary impairment, the Company reviews factors including the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer, changes in market interest rates and whether it is more likely than not the Company will be required to sell the investment before recovery of the investment's cost basis. As of March 25, 2017, the Company did not consider any of its investments to be other-than-temporarily impaired.

The cost and estimated fair value of available-for-sale securities by contractual maturities were as follows (in thousands):

	June 24, 2017		March 25, 2017	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within 1 year	\$ 11,388	\$ 11,380	\$ 99,868	\$ 99,813
After 1 year	134,858	134,851	—	—
Total	\$ 146,246	\$ 146,231	\$ 99,868	\$ 99,813

4. Fair Value of Financial Instruments

The Company has determined that the only assets and liabilities in the Company's financial statements that are required to be measured at fair value on a recurring basis are the Company's cash equivalents, investment portfolio, pension plan assets / liabilities and contingent consideration. The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be

corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company's cash equivalents and investment portfolio assets consist of debt securities, money market funds, and commercial paper and are reflected on our consolidated condensed balance sheets under the headings cash and cash equivalents, marketable securities, and long-term marketable securities. The Company determines the fair value of its investment portfolio assets by obtaining non-binding market prices from its third-party pricing providers on the last day of the quarter, whose sources may use quoted prices in active markets for identical assets (Level 1 inputs) or inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs) in determining fair value.

In connection with one of the Company's second quarter fiscal year 2016 acquisitions, the Company reported contingent consideration based upon achievement of certain milestones. This liability is classified as Level 3 and valued using

a discounted cash flow model. The assumptions used in preparing the discounted cash flow include discount rate estimates and cash flow amounts. See additional details below.

Prior to paying off the Company's long-term revolving facility in the current fiscal quarter, interest was applied at a base rate plus applicable margin or LIBOR plus applicable margin and the fair value of the revolving facility approximated carrying value.

As of June 24, 2017 and March 25, 2017, the Company classified all investment portfolio and pension plan assets and liabilities as Level 1 or Level 2 assets and liabilities. The only Level 3 liability is the contingent consideration described above and below. The Company has no Level 3 assets. There were no transfers between Level 1, Level 2, or Level 3 measurements for the three months ending June 24, 2017.

The following summarizes the fair value of our financial instruments at June 24, 2017, exclusive of pension plan assets and liabilities (in thousands):

	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Assets:				
Cash equivalents				
Money market funds	\$ 138,128	\$ —	\$ —	\$ 138,128
U.S. treasury securities	1,250	—	—	1,250
	\$ 139,378	\$ —	\$ —	\$ 139,378
Available-for-sale securities				
Corporate debt securities	\$ —	\$ 133,462	\$ —	\$ 133,462
Non-US government securities	—	11,809	—	11,809
Certificates of deposit	—	500	—	500
Agency discount notes	—	460	—	460
	\$ —	\$ 146,231	\$ —	\$ 146,231
Liabilities:				
Other accrued liabilities				
Contingent consideration	\$ —	\$ —	\$ 646	\$ 646

The following summarizes the fair value of our financial instruments at March 25, 2017, exclusive of pension plan assets and liabilities (in thousands):

	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Assets:				
Cash equivalents				
Money market funds	\$313,982	\$ —	\$ —	\$313,982
Available-for-sale securities				
Corporate debt securities	\$—	\$ 33,330	\$ —	\$33,330
Commercial paper	\$—	66,483	—	66,483
	\$—	\$ 99,813	\$ —	\$99,813
Liabilities:				
Other accrued liabilities				
Contingent consideration	\$—	\$ —	\$ 4,695	\$4,695

Contingent consideration

The following summarizes the fair value of the liability for contingent consideration at June 24, 2017:

	Maximum Value if Milestones Achieved (in thousands)	Estimated Fair Value Discount (in Rate (%) thousands)
Tranche B - 30 month earn out period	\$ 5,000	7.7 % \$ 646

The valuation of contingent consideration was initially based on a weighted-average discounted cash flow model. The fair value is reviewed and estimated on a quarterly basis based on the probability of achieving defined milestones and current interest rates. Significant changes in any of the unobservable inputs used in the fair value measurement of contingent consideration could result in a significantly lower or higher fair value. An increase or decrease in the probability of achieving certain milestones within the earn out period would be accompanied by a directionally similar change in the fair value of the recorded liability. A change in discount rate would be accompanied by a directionally opposite change in fair value. Changes in the fair value of the recorded liability are reported in research and development expense in the consolidated condensed statements of income. In the current fiscal year, changes in the probability of achieving certain milestones associated with Tranche B of the earn out were determined following a review of product shipment forecasts within the earn out period. The revised estimates reduced the fair value of the liability as of June 24, 2017 as shown in the table below.

Beginning balance	Three Months Ended June 24, 2017 (in thousands) \$ 4,695
-------------------	---

Edgar Filing: CIRRUS LOGIC INC - Form 10-Q

Adjustment to estimates (research and development expense)	(4,049)
Fair value charge recognized in earnings (research and development expense)	—
Ending balance	\$ 646

5. Accounts Receivable, net

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

11

	June 24, 2017	March 25, 2017
Gross accounts receivable	\$ 162,871	\$ 120,408
Allowance for doubtful accounts (434)	(434)	(434)
Accounts receivable, net	\$ 162,437	\$ 119,974

6. Inventories

Inventories are comprised of the following (in thousands):

	June 24, 2017	March 25, 2017
Work in process	\$ 108,670	\$ 83,332
Finished goods	93,759	84,563
	\$ 202,429	\$ 167,895

7. Revolving Credit Facilities

On August 29, 2014, Cirrus Logic entered into a credit agreement (the “Credit Agreement”) with Wells Fargo Bank, National Association, as Administrative Agent, and the Lenders party thereto. The Credit Agreement provided for a \$250 million senior secured revolving credit facility (the “Credit Facility”). Borrowings under the Credit Facility were used for general corporate purposes.

On July 12, 2016, Cirrus Logic entered into an amended and restated credit agreement (the “Amended Credit Agreement”) with Wells Fargo Bank, National Association, as Administrative Agent, and the Lenders party thereto, for the purpose of refinancing the Credit Facility and providing ongoing working capital. The Amended Credit Agreement provides for a \$300 million senior secured revolving credit facility (the “Amended Facility”). The Amended Facility matures on July 12, 2021. Cirrus Logic must repay the outstanding principal amount of all borrowings, together with all accrued but unpaid interest thereon, on the maturity date. The Amended Facility is required to be guaranteed by all of Cirrus Logic’s material domestic subsidiaries (the “Subsidiary Guarantors”). The Credit Facility is secured by substantially all of the assets of Cirrus Logic and any Subsidiary Guarantors, except for certain excluded assets.

Borrowings under the Amended Facility may, at our election, bear interest at either (a) a base rate plus the applicable margin (“Base Rate Loans”) or (b) a LIBOR rate plus the applicable margin (“LIBOR Rate Loans”). The applicable margin ranges from 0% to 0.50% per annum for Base Rate Loans and 1.25% to 2.00% per annum for LIBOR Rate Loans based on the Leverage Ratio (as defined below). A commitment fee accrues at a rate per annum ranging from 0.20% to 0.30% (based on the Leverage Ratio) on the average daily unused portion of the commitment of the lenders. The Amended Credit Agreement contains certain financial covenants providing that (a) the ratio of consolidated funded indebtedness to consolidated EBITDA for the prior four fiscal quarters must not be greater than 3.00 to 1.00 (the “Leverage Ratio”) and (b) the ratio of consolidated EBITDA for the prior four consecutive fiscal quarters to consolidated fixed charges (including amounts paid in cash for consolidated interest expenses, capital expenditures, scheduled principal payments of indebtedness, and income taxes) for the prior four consecutive fiscal quarters must not be less than 1.25 to 1.00 as of the end of each fiscal quarter. The Amended Credit Agreement also contains

negative covenants limiting the Company's or any Subsidiary's ability to, among other things, incur debt, grant liens, make investments, effect certain fundamental changes, make certain asset dispositions, and make certain restricted payments.

As of June 24, 2017, the Company had zero amounts outstanding under the Amended Facility and was in compliance with all covenants under the Amended Credit Agreement.

8. Pension Plan

As a result of the fiscal year 2015 acquisition of Wolfson Microelectronics, the Company now fully funds a defined benefit pension scheme (the "Scheme"), formerly maintained by Wolfson, for some of the employees in the United Kingdom. The participants in the Scheme no longer accrue benefits and therefore the Company will not be required to make contributions in respect of future accruals.

The Company elected to make a contribution based on the latest triennial actuarial valuation. A contribution of £1.5 million was made on June 22, 2017. As of June 24, 2017, the Scheme is in a funded position of \$3.8 million (included within “Other assets” in the consolidated condensed balance sheet).

9. Income Taxes

Our provision for income taxes is based on estimated effective tax rates derived from an estimate of annual consolidated earnings before taxes, adjusted for nondeductible expenses, other permanent items and any applicable credits.

The following table presents the provision for income taxes (in thousands) and the effective tax rates:

	Three Months Ended			
	June 24, 2017		June 25, 2016	
Income before income taxes	\$47,875		\$21,669	
Provision for income taxes	\$4,963		\$3,598	
Effective tax rate	10.4	%	16.6	%

Our income tax expense was \$5.0 million and \$3.6 million for the first quarter of fiscal year 2018 and 2017, respectively, resulting in effective tax rates of 10.4% and 16.6% for the first quarter of fiscal year 2018 and 2017, respectively. Our effective tax rate for the first quarter of fiscal year 2018 was lower than the federal statutory rate primarily due to income earned in certain foreign jurisdictions taxed below the federal statutory rate, excess tax benefits from stock-based compensation, and the release of prior year unrecognized tax benefits that were determined to be effectively settled in the first quarter of fiscal year 2018. Our effective tax rate for the first quarter of fiscal year 2017 was below the federal statutory rate primarily due to excess tax benefits from stock based compensation and income earned in certain foreign jurisdictions taxed below the federal statutory rate.

The Company records unrecognized tax benefits for the estimated risk associated with tax positions taken on tax returns. At June 24, 2017, the Company had unrecognized tax benefits of \$30.8 million, all of which would impact the effective tax rate if recognized. The Company had a net decrease in unrecognized tax benefits of \$0.1 million during the first three months of fiscal year 2018, which was comprised of a gross decrease of \$2.3 million due to the lapse of the statute of limitations applicable to a tax deduction claimed on a prior year tax return, and a gross increase of \$2.2 million to its current year unrecognized tax benefits. The Company’s total unrecognized tax benefits are classified as “Other long-term liabilities” in the consolidated condensed balance sheets.

The Company recognizes interest and penalties related to unrecognized tax benefits in the provision for income taxes. The Company recognized \$0.1 million of interest in the provision for income taxes during the first three months of fiscal year 2018. As of June 24, 2017, the balance of accrued interest and penalties, net of tax, was \$0.3 million. An immaterial amount of interest or penalties was recognized during the first three months of fiscal year 2017.

The Company believes it is reasonably possible that the gross unrecognized tax benefits could decrease by approximately \$1.1 million in the next 12 months due to the lapse of the statute of limitations applicable to a tax position taken on a prior year tax return.

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax in multiple state and foreign jurisdictions. Fiscal years 2014 through 2017 remain open to examination by the major taxing jurisdictions to which the Company is subject, although carry forward attributes that were generated in tax years prior to fiscal year 2014 may be adjusted upon examination by the tax authorities if they have been, or will be, used in a future period. The Company is not currently under an income tax audit in any major taxing jurisdiction.

10. Net Income Per Share

Basic net income per share is based on the weighted effect of common shares issued and outstanding and is calculated by dividing net income by the basic weighted average shares outstanding during the period. Diluted net income per share is calculated by dividing net income by the weighted average number of common shares used in the basic net income per share calculation, plus the equivalent number of common shares that would be issued assuming exercise or conversion of all potentially dilutive common shares outstanding. These potentially dilutive items consist primarily of outstanding stock options and awards (including restricted stock units and market stock units).

The following table details the calculation of basic and diluted earnings per share for the three months ended June 24, 2017 and June 25, 2016 (in thousands, except per share amounts):

	Three Months Ended	
	June 24, 2017	June 25, 2016
Numerator:		
Net income	\$42,912	\$18,071
Denominator:		
Weighted average shares outstanding	64,097	62,450
Effect of dilutive securities	3,063	3,273
Weighted average diluted shares	67,160	65,723
Basic earnings per share	\$0.67	\$0.29
Diluted earnings per share	\$0.64	\$0.27

The weighted outstanding shares excluded from our diluted calculation for the three months ended June 24, 2017 and June 25, 2016 were 218 thousand and 618 thousand, respectively, as the shares were anti-dilutive.

11. Legal Matters

From time to time, we are involved in legal proceedings concerning matters arising in connection with the conduct of our business activities. We regularly evaluate the status of legal proceedings in which we are involved in order to assess whether a loss is probable or there is a reasonable possibility that a loss or additional loss may have been incurred, and to determine if accruals are appropriate. We further evaluate each legal proceeding to assess whether an estimate of possible loss or range of loss can be made.

Based on current knowledge, management does not believe that there are any pending matters that could potentially have a material adverse effect on our business, financial condition, results of operations or cash flows. However, we are engaged in various legal actions in the normal course of business. There can be no assurances in light of the inherent uncertainties involved in any potential legal proceedings, some of which are beyond our control, and an adverse outcome in any legal proceeding could be material to our results of operations or cash flows for any particular reporting period.

12. Stockholders' Equity

Common Stock

The Company issued a net 0.2 million and 0.3 million shares of common stock during the three months ending June 24, 2017 and June 25, 2016, respectively, primarily pursuant to the Company's 2006 Stock Incentive Plan.

Share Repurchase Program

Since inception, \$69.8 million of the Company's common stock has been repurchased under the Company's 2015 \$200 million share repurchase program, leaving \$130.2 million available for repurchase under this plan as of June 24, 2017. During the three months ended June 24, 2017, the Company repurchased 0.7 million shares of its common stock, for \$45.6 million, at an average cost of \$64.26 per share. All of these shares were repurchased in the open market and were funded from existing cash. All shares of our common stock that were repurchased were retired as of June 24, 2017.

13. Segment Information

We determine our operating segments in accordance with FASB guidelines. Our Chief Executive Officer (“CEO”) has been identified as the chief operating decision maker under these guidelines.

The Company operates and tracks its results in one reportable segment, but reports revenue performance in two product lines, Portable Audio and Non-Portable Audio and Other. Our CEO receives and uses enterprise-wide financial information to assess financial performance and allocate resources, rather than detailed information at a product line

14

level. Additionally, our product lines have similar characteristics and customers. They share 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. Revenues from our product lines are as follows (in thousands):

	Three Months Ended	
	June 24, 2017	June 25, 2016
Portable Audio Products	\$280,688	\$216,068
Non-Portable Audio and Other Products	40,047	43,360
	\$320,735	\$259,428

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

The following discussion should be read along with the unaudited consolidated condensed financial statements and notes thereto included in Item 1 of this Quarterly Report on Form 10-Q, as well as the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended March 25, 2017, contained in our fiscal year 2017 Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "Commission") on May 24, 2017. We maintain a website at investor.cirrus.com, which makes available free of charge our most recent annual report and all other filings we have made with the Commission.

This Management's Discussion and Analysis of Financial Condition and Results of Operations 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 Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are based on current expectations, estimates, forecasts and projections and the beliefs and assumptions of our management. In some cases, forward-looking statements are identified by words such as "expect," "anticipate," "target," "project," "believe," "goals," "estimate," "intend," and variations of these types of words and similar expressions which are intended to identify these forward-looking statements. In addition, 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. We undertake no obligation to revise or update publicly any forward-looking statement for any reason.

For additional information regarding known material factors that could cause our actual results to differ from our projected results, please see "Item 1A – Risk Factors" in our 2017 Annual Report on Form 10-K filed with the Commission on May 24, 2017, and in Part II, Item 1A "Risk Factors" within this quarterly report on Form 10-Q. Readers should carefully review these risk factors, as well as those identified in other documents filed by us with the Commission.

Overview

Cirrus Logic, Inc. ("Cirrus Logic," "We," "Us," "Our," or the "Company") is a leader in high-performance, low-power integrated circuits ("ICs") for audio and voice signal processing applications. Cirrus Logic's products span the entire audio signal chain, from capture to playback, providing innovative products for the world's top smartphones, tablets, digital headsets, wearables and emerging smart home applications.

Critical Accounting Policies

Our discussion and analysis of the Company's financial condition and results of operations are based upon the unaudited consolidated condensed financial statements included in this report, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts. We evaluate the estimates on an on-going basis. We base these estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

There were no material changes in the first three months of fiscal year 2018 to the information provided under the heading “Critical Accounting Policies” included in our fiscal year 2017 Annual Report on Form 10-K for the fiscal year ended March 25, 2017.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (ASC Topic 606). The purpose of this ASU is to converge revenue recognition requirements per U.S. GAAP and International Financial Reporting Standards (“IFRS”). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date after public comment supported a proposal to delay the effective date of this ASU to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. The Company is currently in the process of reviewing our customers’ contracts in respect of performance obligation identification and satisfaction, pricing, warranties, and return rights, among other considerations. Though we have not completed the process, the Company currently expects no material modifications to its financial statements upon adoption of this ASU.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The FASB issued this update to increase transparency and comparability by recognizing lease assets and lease liabilities on the balance sheet and disclosing key leasing arrangement details. Lessees would recognize operating leases on the balance sheet under this ASU — with the future lease payments recognized as a liability, measured at present value, and the right-of-use asset recognized for the lease term. A single lease cost would be recognized over the lease term. For terms less than twelve months, a lessee would be permitted to make an accounting policy election to recognize lease expense for such leases generally on a straight-line basis over the lease term. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of this ASU.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU requires credit losses on available-for-sale debt securities to be presented as an allowance rather than a write-down. Unlike current U.S. GAAP, the credit losses could be reversed with changes in estimates, and recognized in current year earnings. This ASU is effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods. Early adoption is permitted for annual periods beginning after December 15, 2018, including interim periods. The Company is currently evaluating the impact of the adoption of this ASU on our financial statements.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. This ASU relates to income tax consequences of non-inventory intercompany asset transfers. This ASU is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted, as of the beginning of an annual reporting period. The guidance requires companies to apply a modified retrospective approach with a cumulative catch-up adjustment to beginning retained earnings in the period of adoption. The Company early adopted this ASU in the current quarter with a \$0.7 million impact to beginning retained earnings.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The update states that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business, and should be treated as an asset acquisition instead. This ASU is effective for annual periods beginning after December 15,

2017, and interim periods within those annual periods. Early adoption is permitted under specific circumstances, including in an interim period, with prospective application. The Company early adopted this ASU in the current quarter and applied the related guidance in a current quarter asset acquisition.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This ASU eliminates step two of the goodwill impairment test. An impairment charge is to be recognized for the amount by which the current value exceeds the fair value. This ASU is effective for annual periods beginning after December 15, 2019, including interim periods. Early adoption is permitted, for interim or annual goodwill impairment tests performed after January 1, 2017. An entity is required to disclose the nature of and reason for the change in accounting principle upon transition. That disclosure should be provided in the first annual period and in the interim period within the first annual period when the entity initially adopts the amendments in this update. The Company is currently evaluating the impact of this ASU and it will be applied prospectively.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. This ASU applies to any company that changes the terms or conditions of a share-based award, considered a modification. Modification accounting would be applied unless certain conditions were met related to the fair value of the award, the vesting conditions and the classification of the modified award. This ASU is effective for annual periods beginning after December 15, 2017, with early adoption permitted. The standard should be applied prospectively to an award modified on or after the adoption date. The Company is currently evaluating the financial statement impact of this ASU.

Results of Operations

The following table summarizes the results of our operations for the first three months of fiscal years 2018 and 2017, respectively, as a percentage of net sales. All percentage amounts were calculated using the underlying data in thousands, unaudited:

	Three Months		
	Ended		
	June	June	
	24,	25,	
	2017	2016	
Net sales	100 %	100 %	%
Gross margin	50 %	49 %	%
Research and development	26 %	28 %	%
Selling, general and administrative	9 %	12 %	%
Income from operations	15 %	9 %	%
Interest income	0 %	0 %	%
Interest expense	0 %	(1)%	
Other income (expense)	0 %	0 %	%
Income before income taxes	15 %	8 %	%
Provision for income taxes	2 %	1 %	%
Net income	13 %	7 %	%

Net Sales

Net sales for the first quarter of fiscal year 2018 increased \$61.3 million, or 24 percent, to \$320.7 million from \$259.4 million in the first quarter of fiscal year 2017. Net sales from our portable audio products increased \$64.6 million, or 30 percent, primarily due to content gains and strong demand for certain digital headset codecs and boosted amplifiers. Non-portable audio and other product sales decreased \$3.3 million for the quarter versus the comparable period in the prior fiscal year.

Sales outside of the Americas, including sales to U.S.-based customers that manufacture products overseas, either through foreign subsidiaries or third parties principally located in Asia, were approximately 96 percent of net sales during the first quarter of fiscal year 2018 and 2017. Our sales are denominated primarily in U.S. dollars. No foreign currency hedging contracts were entered into in the first three months of fiscal year 2018 or 2017.

Since the components we produce are largely proprietary, we consider our end customer to be the entity specifying the use of our component in their design. These end customers may purchase our products directly from us, from an external sales representative or distributor, or through a third-party manufacturer contracted to produce their designs. For the first quarter of fiscal years 2018 and 2017, our ten largest end customers represented approximately

91 percent and 88 percent of our net sales, respectively.

We had one end customer, Apple Inc., that purchased through multiple contract manufacturers and represented approximately 76 percent and 68 percent of the Company's total net sales for the first quarter of fiscal years 2018 and 2017, respectively. Samsung Electronics represented 12 percent of the Company's total net sales for the first quarter of fiscal year 2017.

No other end customer or distributor represented more than 10 percent of net sales for the three months ending June 24, 2017 and June 25, 2016.

For more information, please see Part II—Item 1A—Risk Factors— “We depend on a limited number of customers and distributors for a substantial portion of our sales, and the loss of, or a significant reduction in orders from, or pricing on products sold to, any key customer or distributor could significantly reduce our sales and our profitability.”

Gross Margin

Gross margin was 50.4 percent in the first quarter of fiscal year 2018, up from 48.8 percent in the first quarter of fiscal year 2017. The increase was primarily driven by supply chain efficiencies associated with higher production volume. In addition, the first quarter of fiscal 2017 included higher manufacturing spend related to product ramps.

Research and Development Expense

Research and development expense for the first quarter of fiscal year 2018 was \$83.6 million, an increase of \$9.7 million, or 13 percent, from \$73.9 million in the first quarter of fiscal year 2017. The primary drivers were increases in salary and employee-related expenses, particularly variable compensation and stock-based compensation, following a 13 percent increase in headcount, amortization of acquisition intangibles, product development costs, and facilities-related costs, partially offset by the adjustment in contingent consideration discussed in Note 4.

Selling, General and Administrative Expense

Selling, general and administrative expense for the first quarter of fiscal year 2018 was \$30.9 million, an increase of \$0.4 million, or 1 percent, from \$30.5 million in the first quarter of fiscal year 2017.

Interest income

The Company reported interest income of \$0.9 million and \$0.3 million for the three months ended June 24, 2017 and June 25, 2016, respectively, due to higher average cash, cash equivalents and marketable securities balances for the periods presented.

Interest expense

The Company reported interest expense of \$0.3 million and \$1.0 million for the three months ended June 24, 2017 and June 25, 2016, respectively. Interest expense decreased in the current quarter due to the repayment of the revolving credit facilities described in Note 7.

Other income (expense)

For the three months ended June 24, 2017 and June 25, 2016, the Company reported less than \$0.1 million in other income and \$0.1 million in other expense, respectively, primarily net gains and losses on foreign currency denominated monetary assets and liabilities.

Income Taxes

Our provision for income taxes is based on estimated effective tax rates derived from an estimate of annual consolidated earnings before taxes, adjusted for nondeductible expenses, other permanent items and any applicable credits.

The following table presents the provision for income taxes (in thousands) and the effective tax rates:

	Three Months Ended	
	June 24, 2017	June 25, 2016
Income before income taxes	\$47,875	\$21,669
Provision for income taxes	\$4,963	\$3,598

Edgar Filing: CIRRUS LOGIC INC - Form 10-Q

Effective tax rate 10.4 % 16.6 %

Our effective tax rate for the first quarter of fiscal year 2018 was lower than the federal statutory rate primarily due to income earned in certain foreign jurisdictions taxed below the federal statutory rate, primarily due to income earned in certain foreign jurisdictions taxed below the federal statutory rate, excess tax benefits from stock-based compensation, and the release of prior year unrecognized tax benefits that were determined to be effectively settled in the first quarter of fiscal year 2018.

18

Our effective tax rate for the first quarter of fiscal year 2017 was below the federal statutory rate primarily due to excess tax benefits from stock based compensation and income earned in certain foreign jurisdictions taxed below the federal statutory rate.

Liquidity and Capital Resources

We require cash to fund our operating expenses and working capital requirements, including outlays for research and development, capital expenditures, share repurchases, investments in marketable securities, and strategic acquisitions. Our principal sources of liquidity are cash on hand, cash generated from operations, cash generated from the sale and maturity of marketable securities, and borrowings under our \$300 million senior secured revolving credit facility.

Cash provided by operating activities is net income adjusted for certain non-cash items and changes in working capital. Cash flow used in operations was \$3.8 million for the first three months of fiscal year 2018 as compared to \$12.8 million generated from operations for the corresponding period of fiscal year 2017. The cash flow used in operations during the current period of fiscal year 2018 was related to the cash components of our net income, offset by a \$74.4 million unfavorable change in working capital, primarily as a result of increases in accounts receivable and inventories. The cash flow from operations during the corresponding period of fiscal year 2017 was related to the cash components of our net income, partially offset by a \$31.3 million unfavorable change to working capital, primarily as a result of increases in accounts receivable and inventories.

Net cash used in investing activities was \$77.9 million during the first three months of fiscal year 2018 as compared to \$24.3 million used in investing activities during the first three months of fiscal year 2017. The cash used in investing activities in the current period is primarily related to net purchases of marketable securities of \$46.4 million, and capital expenditures and technology investments of \$11.3 million. In addition, the Company purchased certain tangible and intangible assets for \$20.2 million as part of a technology acquisition. The cash used in investing activities in the corresponding period in fiscal year 2017 was primarily related to net purchases of marketable securities of \$13.8 million, and capital expenditures and technology investments of \$10.5 million.

Net cash used in financing activities was \$105.5 million during the first three months of fiscal year 2018. The cash used during the first three months of fiscal year 2018 was primarily associated with \$60.0 million in payments against the long-term revolver, discussed in Note 7, and stock repurchases of \$45.6 million, discussed in Part II. Item 2. The cash used in financing activities was \$13.7 million for the first three months of fiscal year 2017. The use of cash was primarily associated with stock repurchases during the period of \$15.4 million, offset by \$1.8 million for the issuance of common stock, net of shares withheld for taxes.

Our future capital requirements will depend on many factors, including the rate of sales growth, market acceptance of our products, the timing and extent of research and development projects, potential acquisitions of companies or technologies and the expansion of our sales and marketing activities. While we expect our offshore cash to represent a greater portion of our total cash over time, we believe our expected future cash earnings, existing cash, cash equivalents, investment balances, and available borrowings under our Credit Facility will be sufficient to meet our capital requirements both domestically and internationally, through at least the next 12 months, although we could be required, or could elect, to seek additional funding prior to that time.

Revolving Credit Facilities

On August 29, 2014, Cirrus Logic entered into a credit agreement (the "Credit Agreement") with Wells Fargo Bank, National Association, as Administrative Agent, and the Lenders party thereto. The Credit Agreement provided for a \$250 million senior secured revolving credit facility (the "Credit Facility"). The Credit Facility was used for general corporate purposes.

On July 12, 2016, Cirrus Logic entered into an amended and restated credit agreement (the “Amended Credit Agreement”) with Wells Fargo Bank, National Association, as Administrative Agent, and the Lenders party thereto, for the purpose of refinancing the Credit Facility and providing ongoing working capital. The Amended Credit Agreement provides for a \$300 million senior secured revolving credit facility (the “Amended Facility”). The Amended Facility matures on July 12, 2021. Cirrus Logic must repay the outstanding principal amount of all borrowings, together with all accrued but unpaid interest thereon, on the maturity date. The Amended Facility is required to be guaranteed by all of Cirrus Logic’s material domestic subsidiaries (the “Subsidiary Guarantors”). The Credit Facility is secured by substantially all of the assets of Cirrus Logic and any Subsidiary Guarantors, except for certain excluded assets.

Borrowings under the Amended Facility may, at our election, bear interest at either (a) a base rate plus the applicable margin (“Base Rate Loans”) or (b) a LIBOR rate plus the applicable margin (“LIBOR Rate Loans”). The applicable margin ranges from 0% to 0.50% per annum for Base Rate Loans and 1.25% to 2.00% per annum for LIBOR Rate Loans based on the Leverage Ratio (as defined below). A commitment fee accrues at a rate per annum ranging from 0.20% to 0.30% (based on the Leverage Ratio) on the average daily unused portion of the commitment of the lenders. The Amended Credit Agreement also contains certain financial covenants providing that (a) the ratio of consolidated funded indebtedness to consolidated EBITDA for the prior four fiscal quarters must not be greater than 3.00 to 1.00 (the “Leverage Ratio”) and (b) the ratio of consolidated EBITDA for the prior four consecutive fiscal quarters to consolidated fixed charges (including amounts paid in cash for consolidated interest expenses, capital expenditures, scheduled principal payments of indebtedness, and income taxes) for the prior four consecutive fiscal quarters must not be less than 1.25 to 1.00 as of the end of each fiscal quarter. The Amended Credit Agreement also contains negative covenants limiting the Company’s or any Subsidiary’s ability to, among other things, incur debt, grant liens, make investments, effect certain fundamental changes, make certain asset dispositions, and make certain restricted payments.

As of June 24, 2017, the Company had no amounts outstanding under the Amended Facility and was in compliance with all covenants under the Amended Credit Agreement.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks associated with interest rates on our debt securities, currency movements on non-U.S. dollar denominated assets and liabilities, and the effect of market factors on the value of our marketable securities.

We assess these risks on a regular basis and have established policies that are designed to protect against the adverse effects of these and other potential exposures. For a description of our market risks, see “Part II – Item 7A – Quantitative and Qualitative Disclosures about Market Risk” in our fiscal year 2017 Annual Report on Form 10-K filed with the Commission on May 24, 2017. There have been no significant changes to our exposure to market risks since we filed our fiscal year 2017 Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

As required by Rule 13a-15(b) of the Exchange Act, we have evaluated, under the supervision and with the participation of our management, including our chief executive officer (CEO) and chief financial officer (CFO), the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this Form 10-Q. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Based upon the evaluation, our management, including our CEO and CFO, has concluded that our disclosure controls and procedures were effective as of June 24, 2017.

Changes in control over financial reporting

There has been no change in the Company’s internal control over financial reporting during the quarter ended June 24, 2017, that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information regarding legal proceedings to which the Company is a party is set forth in Note 11 – Legal Matters to our unaudited consolidated condensed financial statements and is incorporated herein by reference.

20

ITEM 1A. RISK FACTORS

In evaluating all forward-looking statements, you should specifically consider risk factors that may cause actual results to vary from those contained in the forward-looking statements. Various risk factors associated with our business are included in our Annual Report on Form 10-K for the year ended March 25, 2017, as filed with the Commission on May 24, 2017, and available at www.sec.gov. Other than as set forth below, there have been no material changes to those risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended March 25, 2017.

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

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 or selling prices to any key customer, or reductions in selling prices made to retain key customer relationships, would significantly reduce our revenue, margins and earnings and adversely affect our business. For the first three months of fiscal years 2018 and 2017, our ten largest end customers represented approximately 91 percent and 88 percent, respectively, of our net sales. We had one end customer, Apple Inc. that purchased through multiple contract manufacturers and represented approximately 76 percent and 68 percent of the Company's total net sales for the first three months of fiscal years 2018 and 2017, respectively. Additionally, Samsung Electronics represented approximately 12 percent of the Company's net sales for the first three months of fiscal year 2017.

We had no distributors that represented more than 10 percent of our sales for the three month period ending June 24, 2017, or June 25, 2016. No other end customer or distributor represented more than 10 percent of net sales for the three month period ending June 24, 2017, or June 25, 2016.

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;
- 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.

In addition, our dependence on a limited number of key customers may make it easier for key customers to pressure us to reduce the prices of the products we sell to them. We have experienced pricing pressure from certain key customers, and we expect that the average selling prices for certain of our products will decline, reducing our revenue, our margins, and our earnings.

Our key customer 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. In addition, we may from time to time enter into customer agreements providing for exclusivity periods during which we may only sell specified products or technologies to that customer. 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.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information about purchases of equity securities that are registered by us pursuant to Section 12 of the Exchange Act during the three months ended June 24, 2017 (in thousands, except per share amounts):

Monthly Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (1)
March 26, 2017 - April 22, 2017	—	\$ —	—	\$ —
April 23, 2017 - May 20, 2017	548	64.11	548	140,668
May 21, 2017 - June 24, 2017	161	64.79	161	130,227
Total	709	\$ 64.26	709	\$ 130,227

(1) The Company currently has one active share repurchase program: the \$200 million share repurchase program authorized by the Board of Directors in October 2015. The repurchases are to be funded from existing cash and intended to be effected from time to time in accordance with applicable securities laws through the open market or in privately negotiated transactions. The timing of the repurchases and the actual amount purchased depend on a variety of factors including the market price of the Company's shares, general market and economic conditions, and other corporate considerations. The program does not have an expiration date, does not obligate the Company to repurchase any particular amount of common stock, and may be modified or suspended at any time at the Company's discretion. The Company repurchased 0.7 million shares of its common stock for \$45.6 million during the first quarter of fiscal year 2018. All of these shares were repurchased in the open market and were funded from existing cash. All shares of our common stock that were repurchased were retired as of June 24, 2017.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

- 3.1 Certificate of Incorporation of Registrant, filed with the Delaware Secretary of State on August 26, 1998. (1)
- 3.2 Amended and Restated Bylaws of Registrant. (2)
- 31.1 Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CALXBRL Taxonomy Extension Calculation Linkbase Document
- 101.LABXBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- (1) Incorporated by reference from Registrant's Report on Form 10-K for the fiscal year ended March 31, 2001, filed with the Commission on June 22, 2001 (Registration No. 000-17795).
- (2) Incorporated by reference from Registrant's Report on Form 8-K filed with the Commission on September 20, 2013 (Registration No. 000-17795).

The exhibits required to be filed pursuant to the requirements of Item 601 of Regulation S-K are set forth in the Exhibit Index list noted above and are incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CIRRUS LOGIC, INC.

Date: August 2, 2017 /s/ Thurman K. Case

Thurman K. Case

Vice President, Chief
Financial Officer and
Principal Accounting
Officer