

CIRRUS LOGIC INC  
Form 10-K  
May 29, 2008

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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 29, 2008**

**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  
(State of incorporation)**

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

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

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

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

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

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  NO

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 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.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates was approximately \$459 million based upon the closing price reported on the NASDAQ Global Select Market as of September 29, 2007.

As of May 27, 2008, the number of outstanding shares of the registrant's Common Stock, \$0.001 par value, was 64,892,873.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain information contained in the registrant's proxy statement for its annual meeting of stockholders to be held July 25, 2008 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 29, 2008**

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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 consumer and industrial 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 applications. We also develop ICs, board-level modules and hybrids for high-power amplifier applications branded as the Apex Precision Power™ line of products. We also provide complete system reference designs based on our technology that enable our customers to bring products to market in a timely and cost-effective manner.

We were founded in 1984 and were reincorporated in the State of Delaware in February 1999. Our primary facilities, housing engineering, sales and marketing, administration, and test operations are located in Austin, Texas. In addition, we have an administrative and manufacturing facility in Tucson, Arizona, a design center in Shanghai in the People's Republic of China, and sales locations internationally and 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](http://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](mailto:InvestorRelations@cirrus.com).

**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 values that can regulate functions such as temperature, speed, sound, video images and electrical current. Digital semiconductors process discrete values, for example, two values, such as 0s and 1s, used by computers. Mixed-signal semiconductors combine analog and digital functions in a single product.

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

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

## Markets and Products

We are focused on becoming a leader in high-precision analog and mixed-signal ICs for a broad range of consumer and industrial markets. Our primary product lines include:

***Audio Products:*** High-precision analog and mixed-signal products for consumer, professional and automotive entertainment markets.

***Industrial Products:*** High-precision analog and mixed-signal components for industrial measurement applications, such as industrial process control, analytical instruments, consumer utility, digital power meters and seismic systems. Industrial products also include ICs, board-level modules and hybrids for high-power pulse width modulation ( PWM ) and power amplifiers applications.

We offer approximately 700 products to more than 2,500 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 industrial markets that derive value from our expertise in advanced

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analog and mixed-signal design processing, systems-level integrated circuit engineering and embedded software development. We derive our revenue 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.

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

	<b>March 29, 2008</b>	<b>March 31, 2007</b>	<b>March 25, 2006</b>
Avnet, Inc.	27%	29%	25%

**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, otherwise known as coder-decoders ( CODECs ), digital interface ICs, volume controls and digital amplifiers, as well as audio DSPs for consumer electronics applications such as A/V receivers, digital TVs, and CobraNet ICs and modules for networked audio applications. Our broad portfolio of approximately 250 active proprietary products includes the following products, which have been added in the past fiscal year:

The CS49700 audio DSP, the first single-chip processor designed to handle the wide variety of audio algorithms associated with Blu-ray Disc™.

The CS42324/5 family of codecs for digital TV applications. This family of products greatly simplifies the challenge of audio signal management within TV designs through integration, which eliminates the need for numerous separate components.

The CS43L22 low-power stereo DAC for low-power portable applications, such as MP3 music players and game devices. The CS43L22 features an integrated Class D speaker amplifier and stereo headphone, using advanced low-power circuit design techniques to minimize power consumption without sacrificing audio performance and reduce component counts.

The CS2000 family of audio clocking ICs for professional and high-end consumer applications, such as A/V receivers, mixing consoles, multitrack recorders and set-top boxes.

The CS48DV02, the first audio processor featuring Dolby™ Volume sound-leveling and enhancement technology for digital TV applications.

Our products are used in a wide array of consumer applications, including audio/video receivers ( AVR's ), DVD players and recorders, complete home theater systems, set-top boxes, MP3 players, 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 enable delivery of uncompressed digital audio over Ethernet networks, co-existing with standard Ethernet network data traffic.

**INDUSTRIAL PRODUCTS**



We provide high-precision analog and mixed-signal ICs for targeted industrial measurement applications, as well as ICs, board-level modules, and hybrids from the Apex Precision Power brand of products for high-power PWM and power amplifiers applications. We have more than 450 active proprietary products which include ADCs, DACs, successive approximation register ( SAR ) converters and amplifier ICs. Our products are used in a wide array of high-precision, industrial measurement applications including industrial process control, analytical and medical instruments, consumer utility, digital utility meters and energy exploration systems. New additions to our proprietary product portfolio in the past fiscal year include:

The CS55XX family of high-precision industrial A/D converters for industrial and scientific instrumentation applications. This Delta-Sigma-based family of products combines the best attributes of Delta Sigma converters and SAR converters to deliver best-in-class features and performance. This family of products was a finalist for Best Analog IC product as part of EDN magazine's Innovations of the Year Awards.

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### **Manufacturing**

We contract with third parties for wafer fabrication and nearly all of our assembly and test operations. During fiscal year 2008 the Company acquired 100 percent of the voting equity interests in Apex Microtechnology ( Apex ). Apex owns a 54,000 square foot facility in Tucson, Arizona, which continues to serve as the assembly and test facility for the Apex product line. With the exception of these Apex products, our fabless manufacturing strategy allows us to concentrate on our design strengths, minimize fixed costs and capital expenditures, access advanced manufacturing facilities and provide 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 sent for testing before shipment to our customers. 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. We use multiple foundries, assembly and test houses.

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

We rely on trade secret, patent, copyright and trademark laws to protect our intellectual property products and technology. We intend to continue this practice in the future to protect our products and technologies. As of March 29, 2008, we held 1,070 U.S. patents, 137 U.S. pending patent applications and various corresponding international patents and applications. Our U.S. patents expire in calendar years 2008 through 2027.

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 2008, 2007, and 2006, were \$48.5 million, \$44.0 million, and \$45.8 million, respectively. These amounts include amortization of acquired intangibles of \$1.4 million, \$0.3 million, and \$1.4 million, in fiscal years 2008, 2007, and 2006, respectively. Our future success is highly dependent upon our ability to develop complex new products, to transfer new products to volume production in a timely fashion, to introduce them to the marketplace ahead of the competition and to have them selected for design into products of systems manufacturers. Our future success may also depend on assisting our customers with integration of our components into their new products, including providing support from the concept stage through design, launch and production ramp.

### **Competition**

Markets for our products are highly competitive and we expect that competition will continue to increase. We compete with other semiconductor suppliers that offer standard semiconductors, application-specific standard product and fully customized ICs, including embedded software, chip and board-level products. Some customers we service

also develop ICs that compete with our products. Our strategy involves providing lower-cost versions of existing products and new, more advanced products for customers' new designs.

While no single company competes with us in all of our product lines, we face significant competition in each of our major product lines, as detailed above in our product line discussions. 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.

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Competition typically occurs at the design stage, where the customer evaluates alternative design approaches. Many of our products have not been available from second sources; thus, once our ICs have been designed into a customer's system, we generally do not face direct competition in selling our products.

Product life cycles 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 more 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. In the event that competitors succeed in supplanting our products, our market share may not be sustainable and net sales, gross margins and earnings could be adversely affected.

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

Export sales, which include sales to customers with manufacturing plants outside the United States, were 62 percent of net sales in fiscal years 2008 and 2007, and 66 percent in fiscal year 2006. We maintain a worldwide sales force, which is intended to provide geographically specific selling support to our customers and specialized selling of product lines with unique customer bases.

Our domestic sales force includes a network of regional direct sales offices located in California, Florida, Massachusetts, Maryland, New Hampshire, Ohio, Nevada, and Texas. International sales offices and staff are located in France, Germany, Hong Kong, Shanghai 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, Arizona, and Shanghai in the People's Republic of China.

## **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. 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 to reflect changes in customer needs or industry conditions. As a result, we believe that our backlog at any given time is not a reliable indicator of future revenues.

## **Employees**

As of March 29, 2008, we had 473 full-time employees, of whom 45 percent were engaged in research and product development activities, 37 percent in sales, marketing, general and administrative activities and 18 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.

Due to the highly competitive nature of the marketplace that we operate in, we may from time-to-time lose key employees to our competitors. We have been able to hire qualified personnel in the past to fill open positions created by these occurrences, although there can be no assurance that we will be able to do this in the future. None of our employees are represented by collective bargaining agreements.

## **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 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 margins and operating results. If our operating results fall below expectations of market analysts or investors, the market price of our common stock could decrease substantially.

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Factors that could materially and adversely affect our net sales, gross margins 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;

competitive pricing pressures;

our ability to introduce new products on a timely basis;

the timing and extent of our research and development expenses;

the failure to anticipate changing customer product requirements;

disruption in the supply of wafers, assembly or test services;

certain production and other risks associated with using independent manufacturers, assembly houses and testers; and

product obsolescence, price erosion, competitive developments, and other competitive factors.

***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, introduce new or enhanced products with higher margins and/or reduce manufacturing costs to offset anticipated decreases in the prices of our existing products, our operating results may be adversely affected. In addition, because of procurement lead times, we are limited in our ability to reduce total costs quickly in response to any revenue shortfalls. Because of these factors, we may experience material adverse fluctuations in our future operating results on a quarterly or annual basis.

***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 or sell into could have a material adverse effect on our business.

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

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

Future downturns or upturns may have a material adverse effect on our business and results of operations. We may experience substantial period-to-period fluctuations in revenue due to general semiconductor industry conditions or other factors.

***Because we do not have long-term agreements with our customers and generally do not have a significant backlog of unfilled orders, our revenue and operating results in any quarter are difficult to forecast and are substantially dependent upon customer orders received and fulfilled in that quarter.***

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 revenue 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

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compensate for any unexpected shortfall in revenue. Accordingly, any significant shortfall of revenue in relation to our expectations could hurt our operating results.

***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 revenue 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.

Although we seek to design products that have the potential to become industry standard products, we cannot assure that market leaders will adopt any products introduced by us, or that any products initially accepted by our customers who are market leaders will become industry standard products. Both revenues and margins may be materially affected if new product introductions are delayed, or if our products are not designed into successive generations of our customers products. We 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 assure that we will be able to successfully develop and introduce new products on a timely basis.

***Our products are complex and could contain defects, which could result in material costs to us.***



Product development in the markets we serve is becoming more focused on the integration of multiple functions on individual devices. There is a general trend towards increasingly complex products. The greater integration of functions and complexity of operations of our products increases the risk that our customers or end users could discover latent defects or subtle faults after volumes of product have been shipped. This could result in, but not limited to:

damage to our reputation;

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

payments to our customer related to such recall claims as a result of various industry or business practices, or in order to maintain good customer relationships;

an adverse impact to our customer relationships by the occurrence of significant defects;

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

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

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In addition, any defects or other problems with our products could result in financial or other damages to our customers who could seek damages from us for their losses. A product liability claim brought against us, even if unsuccessful, would likely be time consuming and costly to defend. In particular, the sale of systems and components into certain applications for the automotive industry involves a high degree of risk that such claims may be made.

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

***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 parties 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, we generally order our products through non-cancelable purchase orders from third-party foundries based on our sales forecasts, and our customers can generally cancel or reschedule orders they place with us without significant penalties. If we do not receive orders as anticipated by our forecasts, or our customers cancel orders that are placed, we may experience increased inventory levels.

Due to the product manufacturing cycle characteristic of IC manufacturing and the inherent imprecision by our customers to accurately forecast their demand, product inventories may not always correspond to product demand, leading to shortages or surpluses of certain products. As a result of such inventory imbalances, future inventory write-downs and charges to gross margin may occur due to lower of cost or market accounting, excess inventory, and inventory obsolescence.

***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 62 percent, 62 percent, and 66 percent of our net sales in fiscal years 2008, 2007, and 2006, 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

the burdens of complying with a variety of non-U.S. laws.

In addition, our competitive position may be affected by the exchange rate of the U.S. dollar against other currencies. Consequently, increases in the value of the dollar would increase the price in local currencies of our products in

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non-U.S. markets and make our products relatively more expensive. Alternatively, decreases in the value of the dollar will increase the relative cost of our and our vendors' operations that are based overseas. We cannot assure that regulatory, political and other factors will not adversely affect our operations in the future or require us to modify our current business practices.

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

The future of our business, as well as the future growth of our business, will depend in part on our ability to manage our relationships with current and future distributors and external sales representatives and to develop additional channels for the distribution and sale of our products. The inability to successfully manage these relationships could adversely affect our business.

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

In addition to export sales constituting a majority of our net sales, we maintain significant international operations, including design, sales and technical support personnel. We are also using contract manufacturers in Asia and Europe for foundry, assembly and test operations. International expansion has required, and will continue to require, significant management attention and resources. There are risks inherent in expanding our presence into non-U.S. regions, including, but not limited to:

difficulties in staffing and managing non-U.S. operations;

failure of non-U.S. laws to adequately protect our U.S. intellectual property, patent, trademarks, copyrights know-how and other proprietary rights;

global health conditions and potential natural disasters;

political and economic instability in international regions;

international currency controls and exchange rate fluctuations;

additional vulnerability from terrorist groups targeting American interests abroad; and

legal uncertainty regarding liability and compliance with non-U.S. laws and regulatory requirements.

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

We depend on third-party subcontractors, primarily in Asia, for the assembly, packaging and testing of most of our products. International operations and sales may be subject to political and economic risks, including changes in current tax laws, political instability, global health conditions, currency controls, exchange rate fluctuations and changes in import/export regulations, tariff and freight rates, as well as the risks of natural disaster. Although we seek to reduce our dependence on any one subcontractor, this concentration of subcontractors and manufacturing operations in Asia subjects us to the risks of conducting business internationally, including political and economic conditions in Asia. Disruption or termination of the assembly, packaging or testing of our products could occur and such disruptions could harm our business and operating results.

***Strong competition in the semiconductor market may harm our business.***

The IC industry is intensely competitive and is frequently characterized by rapid technological change, price erosion and design, technological obsolescence, and a push towards IC component integration. Because of shortened product life cycles and even shorter design-in cycles in a number of the markets that we serve, our competitors have increasingly frequent opportunities to achieve design wins in next-generation systems. In the event that competitors succeed in supplanting our products, our market share may not be sustainable and our net sales, gross margins and operating results would be adversely affected. Additionally, further component integration could eliminate the need for our products.

We compete in a number of fragmented markets. Our principal competitors in these markets include AKM, Analog Devices, Austriamicrosystems, Freescale Semiconductor, IDT, Linear Technologies, Maxim, Realtek, ST Micro, Teridian Semiconductor, Texas Instruments/Burr Brown and Wolfson Microelectronics-many of whom have substantially greater financial, engineering, manufacturing, marketing, technical, distribution and other resources, broader product lines, broader intellectual property portfolios and longer relationships with customers. We also expect intensified competition from emerging companies and from customers who develop their own IC products. In addition, some of our current and future

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competitors maintain their own fabrication facilities, which could benefit them in connection with cost, capacity and technical issues.

Increased competition could adversely affect our business. We cannot assure that we will be able to compete successfully in the future or that competitive pressures will not adversely affect our financial condition and results of operations. Competitive pressures could reduce market acceptance of our products and result in price reductions and increases in expenses that could adversely affect our business and our financial condition.

***We may be unable to protect our intellectual property rights.***

Our success depends on our ability to obtain patents and licenses and to preserve our other intellectual property rights covering our products. We seek patent protection for those inventions and technologies for which we believe such protection is suitable and is likely to provide a competitive advantage to us. We also rely substantially on trade secrets, proprietary technology, non-disclosure and other contractual terms, and technical measures to protect our technology and manufacturing knowledge. We work actively to foster continuing technological innovation to maintain and protect our competitive position. We cannot assure that steps taken by us to protect our intellectual property will be adequate, that our competitors will not independently develop or patent substantially equivalent or superior technologies or will be able to design around our patents, or that our intellectual property will not be misappropriated. In addition, the laws of some non-U.S. countries may not protect our intellectual property as well as the laws of the United States.

Any of these events could materially adversely affect our business, operating results and financial condition. Policing infringement of our technology is difficult, and litigation may be necessary in the future to enforce our intellectual property rights. Any such litigation could be expensive, take significant time and divert management's attention from other business concerns.

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

The IC industry is characterized by frequent litigation regarding patent and other intellectual property rights. We may find it necessary to initiate a lawsuit to assert our patent or other intellectual property rights. These legal proceedings could be expensive, take significant time and divert management's attention from other business concerns. We cannot assure that we will ultimately be successful in any lawsuit, nor can we assure that any patent owned by us will not be invalidated, circumvented, or challenged. We cannot assure that rights granted under our patents will provide competitive advantages to us, or that any of our pending or future patent applications will be issued with the scope of the claims sought by us, if at all.

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

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

Competition for highly qualified personnel in our industry is intense. The number of technology companies in the geographic areas in which we operate is greater than it has been historically and we expect competition for qualified

personnel to intensify. There are only a limited number of people in the job market with the requisite skills. Our Human Resources organization focuses significant efforts on attracting and retaining individuals in key technology positions. For example, start-up companies generally offer larger equity grants to attract individuals from more established companies. The loss of the services of key personnel or our inability to hire new personnel with the requisite skills could restrict our ability to develop new products or enhance existing products in a timely manner, sell products to our customers, or manage our business effectively.

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***We may face difficulties integrating and may incur costs associated with our acquisition of Apex.***

On July 24, 2007, we completed the acquisition of Apex. We could experience difficulties integrating the personnel, products, technologies, and operations of this company. Integrating this acquisition involves a number of risks, including, but not limited to:

unexpected costs or incurring unknown liabilities, including potential unknown environmental liabilities associated with Apex's manufacturing facility;

the diversion of management resources from other strategic and operational issues;

the inability to retain key employees at Apex;

difficulties relating to integrating the operations and personnel of Apex;

disruption in the supply of components purchased and incorporated into Apex's hybrid and board-level products;

entering into markets and acquiring technologies in areas in which we have little experience; and

acquired intangible assets becoming impaired as a result of technological advancements, or worse-than-expected performance of Apex.

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

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

We continue to consider future acquisitions of other companies, or their technologies or products, to improve our market position, broaden our technological capabilities and expand our product offerings. However, we may not be able to acquire, or successfully identify, the companies, products or technologies that would enhance our business.

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

the potential disruption of our ongoing business;

unexpected costs or incurring unknown liabilities;

the diversion of management resources from other strategic and operational issues;

the inability to retain the employees of the acquired businesses;

difficulties relating to integrating the operations and personnel of the acquired businesses;