CIRRUS LOGIC INC
Form 10-Q
April 18, 2007

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

FORM 10-Q

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

For the quarterly period ended September 23, 2006

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

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

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

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

The number of shares of the registrant s common stock, $0.001 par value, outstanding as of March 31, 2007 was 88,163,467.

CIRRUS LOGIC, INC.
FORM 10-Q QUARTERLY REPORT
QUARTERLY PERIOD ENDED SEPTEMBER 23, 2006
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PART II OTHER INFORMATION

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Part I.
ITEM 1. FINANCIAL STATEMENTS

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

	Sep. 23, 2006 (unaudited)	Mar. 25, 2006
ASSETS		
Current assets		
Cash and cash equivalents	$ 96,140	$ 116,675
Restricted investments	5,755	5,755
Marketable securities	158,817	102,335
Accounts receivable, net	21,924	20,937
Inventories	21,427	18,708
Other current assets	5,949	7,747
Total Current Assets	310,012	272,157
Long-term marketable securities	992	18,703
Property and equipment, net	12,845	14,051
Intangibles, net	2,894	2,966
Goodwill		
Investment in Magnum Semiconductor	7,947	7,947
Other assets	3,347	3,217
Total Assets	$ 338,037	$ 319,041
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 10,824	$ 14,129
Accrued salaries and benefits	7,038	6,460
Other accrued liabilities	9,565	10,053
Deferred income on shipments to distributors	6,427	7,098
Income taxes payable	2,079	2,228
Total Current Liabilities	35,933	39,968
Long-term restructuring accrual	3,621	4,694
Other long-term obligations	9,155	10,109
Stockholders equity:		
Capital stock	922,086	914,235
Accumulated deficit	(631,923)	(649,075)
Accumulated other comprehensive loss	(835)	(890)
Total Stockholders Equity	289,328	264,270

Total Liabilities and Stockholders Equity	$ 338,037	$ 319,041

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

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

	Three Months Ended		Six Months Ended	
	September 23, 2006	**September 24, 2005**	**September 23, 2006**	**September 24, 2005**
Net sales	$ 48,179	$ 50,461	$ 93,360	$ 103,283
Cost of sales	20,014	23,608	38,035	49,131
Gross Margin	28,165	26,853	55,325	54,152
Operating expenses:				
Research and development	10,103	11,024	21,773	24,702
Selling, general and administrative	12,389	16,369	23,480	30,711
Restructuring and other costs	(428)	2,311	(428)	2,311
Litigation settlement, net				(24,758)
Total operating expenses	22,064	29,704	44,825	32,966
Income (loss) from operations	6,101	(2,851)	10,500	21,186
Realized gain on marketable securities			193	388
Interest income, net	3,154	1,684	6,119	2,820
Other income (expense), net	(25)	(109)	30	(128)
Income (loss) before income taxes	9,230	(1,276)	16,842	24,266
Benefit for income taxes	(97)	(167)	(310)	(533)
Net income (loss)	$ 9,327	$ (1,109)	$ 17,152	$ 24,799
Basic income per share:	$ 0.11	$ (0.01)	$ 0.20	$ 0.29
Diluted income per share:	$ 0.11	$ (0.01)	$ 0.19	$ 0.28
Basic weighted average common shares outstanding:	87,553	85,804	87,374	85,517
Diluted weighted average common shares outstanding:	88,499	85,804	88,620	87,051

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

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

	Six Months Ended	
	September 23, 2006	**September 24, 2005**
Cash flows from operating activities:		
Net Income	$ 17,152	$ 24,799
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,936	4,841
Stock compensation expense	3,109	1,487
Gain on marketable securities	(193)	(388)
(Gain) loss on video product line asset sale	235	(827)
Excess tax benefit related to the exercise of employee stock options	(57)	
Other non-cash benefits	(758)	(502)
Net change in operating assets and liabilities	(7,401)	13,087
Net cash provided by operating activities	15,023	42,497
Cash flows from investing activities:		
Additions to property, equipment and software	(1,181)	(277)
Investments in technology	(540)	(581)
Purchase of marketable securities	(112,900)	(99,406)
Proceeds from sale and maturity of marketable securities	74,398	85,407
Decrease in restricted investments		2,143
Increase in deposits and other assets	(135)	(529)
Net cash used in investing activities	(40,358)	(13,243)
Cash flows from financing activities:		
Excess tax benefit related to the exercise of employee stock options	57	
Net proceeds from the issuance of common stock	4,743	3,858
Net cash provided by financing activities	4,800	3,858
Net increase (decrease) in cash and cash equivalents	(20,535)	33,112
Cash and cash equivalents at beginning of period	116,675	79,235
Cash and cash equivalents at end of period	$ 96,140	$ 112,347

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

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

1. Basis of Presentation

The consolidated condensed financial statements have been prepared by Cirrus Logic, Inc. (we, us, our, or the Company) pursuant to the rules and regulations of the Securities and Exchange Commission (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, 2006, included in our amended 2006 Annual Report on Form 10-K/A filed with the Commission on April 18, 2007. In our opinion, the financial statements reflect all adjustments, including normal recurring adjustments, necessary for a fair presentation of the financial position, operating results and cash flows, for those periods presented. The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect reported assets, liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates and assumptions. Moreover, the results of operations for the interim periods presented are not necessarily indicative of the results that may be expected for the entire year.

Recently Issued Accounting Pronouncements

In June 2006, the *Financial Accounting Standards Board (FASB)* issued *FASB Interpretation No. 48 (FIN No. 48) Accounting for Uncertainty in Income Taxes,* which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN No. 48 provides guidance on the derecognition, classification, accounting in interim periods and disclosure requirements of uncertain tax positions. The accounting provisions of FIN No. 48 will be effective for the Company beginning April 1, 2007. The Company is in the process of determining the effect, if any, that the adoption of FIN No. 48 will have on its financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS No. 157) *Fair Value Measurements,* which establishes a framework for measuring the fair value of assets and liabilities as they appear on the balance sheet. The statement attempts to reconcile the many pronouncements issued by the FASB dealing with fair value measurements in order to increase the consistency and comparability of financial statements. SFAS No. 157 requires implementation under the prospective approach, with the exception that certain enumerated financial instruments shall be accounted for retrospectively. The statement will become effective for the Company on March 30, 2008. The Company is in the process of determining the effect, if any, that the adoption of SFAS No. 157 will have on our financial statements.

1A. Special Committee Review of Past Stock Option Granting Practices

In October 2006 we announced that an internal review of our past practices related to grants of stock options had revealed information that raised potential questions about the measurement dates used to account for certain stock option grants. We also announced that, at the recommendation of the Audit Committee of the Company s Board of Directors (the Board), the Board appointed an independent director to serve as a Special Committee to conduct an investigation into our historic stock option granting practices.

The Special Committee retained independent legal counsel to assist in the investigation. During the eight month investigation, the Special Committee and its independent counsel, assisted by independent forensic accountants, reviewed the facts and circumstances surrounding annual stock option grants made to executive officers, employees and non-employee directors, searched relevant physical and electronic documents and interviewed current and former directors, officers and employees. In March 2007, we announced that the Special Committee had reported its principal findings to the Board relating to the above investigation. Based on the report of the Special Committee and on management s preliminary conclusions and recommendations, the Board concluded that incorrect measurement dates were used for financial accounting purposes for certain stock options granted between January 1, 1997 and December 31, 2005.

The Special Committee found that the Company s stock plan administrative deficiencies between January 1, 1997 and December 31, 2005 led to a number of misdated option grants. The Special Committee concluded that prior to 2003, the limited controls and the lack of definitive processes for stock option granting and approval allowed for potential abuse, including the use of hindsight, in the establishment of more favorable grant dates for certain options. In particular, the Special Committee believed that based on the evidence developed in the investigation, that certain executive officers had knowledge of and participated in the selection of three grant dates for broad based employee option grants in the 2000 through 2002 timeframe. The executive officers involved in the option grant process prior to 2003, and in particular the grants described above in the 2000 through 2002 timeframe, were no longer with the Company at the time of the Special Committee s report with the exception of David D. French (Mr. French), the Company s President and Chief Executive Officer. In light of these findings, as of March 5, 2007, Mr. French entered into a resignation agreement with the Company and resigned as President and Chief Executive Officer and as a director of the Company.

As a result of the findings of the Special Committee, the Company has, concurrent with this filing, amended its annual report on Form 10-K for the year ended March 25, 2006 and its quarterly report on Form 10-Q for the three months ended June 24, 2006 to reflect the recognition of additional share-based compensation expense arising from stock grants to executive officers and employees.

2. Stock-Based Compensation

Effective March 26, 2006, the beginning of our fiscal year 2007, the Company adopted the provisions of the *Statement of Financial Accounting Standards No. 123(R) (SFAS No. 123(R))* and, in doing so, consulted the guidance provided in *Staff Accounting Bulletin No. 107 (SAB No. 107).* SFAS No. 123(R) requires stock-based compensation to be accounted for under the fair value method and requires the use of an option pricing model for estimating fair value. Accordingly, stock-based compensation is measured at grant date based on the fair value of the award. The Company previously accounted for awards granted under its equity incentive plans under the intrinsic value method prescribed by *Accounting Principles Board Opinion No. 25 (APB No. 25), Accounting for Stock Issued to Employees,* and related interpretations, and provided the required pro forma disclosures prescribed by SFAS No. 123, *Accounting for Stock-Based Compensation,* as amended.

Under the modified prospective method of adoption for SFAS No. 123(R), the compensation cost recognized by the Company beginning in fiscal year 2007 includes (a) compensation cost for all equity incentive awards granted prior to, but not yet vested as of March 26, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all equity incentive awards granted subsequent to March 25, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). The Company uses the accelerated method to recognize stock-based compensation costs over the service period of the award. Upon exercise, cancellation, or expiration of stock options, deferred tax assets for options with multiple vesting dates are eliminated for each vesting period on a first-in, first-out basis as if each vesting period was a separate award. To calculate the excess tax benefits available for use in offsetting future tax shortfalls as of the date of implementation, the Company followed the guidance in paragraph 81 of SFAS No. 123(R).

We have various stock incentive plans (the Stock Plans) under which officers, employees, non-employee directors and consultants may be granted qualified and non-qualified options to purchase shares of our authorized but not issued common stock. Except as noted in Note 1A, options are priced at the market value of the stock on the date of grant. Options granted to employees are exercisable upon vesting, generally in tranches over four years and certain options granted to non-employee directors are exercisable upon grant. Options expire no later than ten years from the date of grant.

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Stock-based compensation recognized in fiscal year 2007 as a result of the adoption of SFAS No. 123(R), as well as pro forma disclosures according to the original provisions of SFAS No. 123 for periods prior to the adoption of SFAS No. 123(R), use the Black-Scholes option pricing model for estimating fair value of options granted under the Company s equity incentive plans.

The following table summarizes the effects of stock-based compensation on cost of goods sold, research and development, sales, general and administrative, income from continuing operations before taxes, and net income after taxes for options granted under the Company s equity incentive plans (in thousands, except per share amounts; unaudited):

	Three Months Ended		Six Months Ended	
	September 23, 2006	September 24, 2005	September 23, 2006	September 24, 2005
Cost of sales	$ 17	$ 12	$ 33	$ 13
Research and development	642	394	1,166	436
Sales, general, and administrative	1,107	604	1,910	645
Effect on income from continuing operations (before taxes)	1,766	1,010	3,109	1,094
Income Tax Benefit	(2)		(2)	
Total share based compensation expense (net of taxes)	$ 1,764	$ 1,010	$ 3,107	$ 1,094
Share based compensation effects on basic earnings per share	$ 0.02	$	$ 0.04	$ 0.01
Share based compensation effects on diluted earnings per share	$ 0.02	$	$ 0.04	$ 0.01
Share based compensation effects on operating activities cash flow	$ 1,766	$ 1,010	$ 3,109	$ 1,094
Share based compensation effects on financing activities cash flow	$ 57	$	$ 57	$

During the second quarter and first six months of fiscal year 2007, we received a net $0.9 million and $4.7 million, respectively, from the exercise of options granted under the Company s Stock Plans.

The total intrinsic value of options exercised during the second quarter of fiscal year 2007 and 2006 was $0.2 million and $3.1 million, respectively. The total intrinsic value of options exercised during the first six months of fiscal year 2007 and 2006 was $2.9 million and $3.2 million, respectively. Intrinsic value represents the difference between the market value of Cirrus Logic common stock at the time of exercise and the strike price of the option.

As of September 23, 2006, there was $6.8 million of compensation cost related to non-vested stock option awards granted under the Company s equity incentive plans not yet recognized in the Company s financial statements. The unrecognized compensation cost is expected to be recognized over a weighted average period of 1.33 years. Had we not adopted SFAS 123(R), the APB No. 25 compensation expense we would have recognized in the current quarter and year-to-date would have been immaterial.

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As of September 23, 2006, approximately 27.4 million shares of common stock were reserved for issuance under the Stock Plans. Additional information with respect to stock option activity is as follows:

		Options Outstanding			
	Options Available for Grant (thousands)	Number of Options (thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (thousands)
Outstanding and available at 3/25/06	17,055	11,960	$ 8.93		
Shares auth. for issuance	20,474				
Option plans terminated	(21,286)				
Options granted	(128)	128	7.40		
Options exercised		(825)	5.46		
Options cancelled	880	(400)	6.63		
Options expired		(480)	15.44		
Outstanding and available at 9/23/06	16,995	10,383	$ 8.98	6.60	$ 8,957
Vested and Expected to Vest at 9/23/06		9,881	$ 9.09	6.49	$ 8,624
Exercisable at 9/23/2006		6,832	$ 10.31	5.63	$ 5,653

The following table summarizes information regarding outstanding and exercisable options as of September 23, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options (in thousands)	Weighted Average Remaining Contractual Term	Weighted Average Exercise Price	Number of Options (in thousands)	Weighted Average Exercise Price
$ 0.19 - $ 2.60	281	6.32	$ 2.35	212	$ 2.34
$ 2.61 - $ 3.40	755	6.74	3.40	599	3.40
$ 3.41 - $ 5.16	2,038	7.98	4.89	970	4.82
$ 5.17 - $ 6.97	1,382	7.11	6.55	882	6.55
$ 6.98 - $ 9.00	3,082	8.13	7.66	1,335	7.66
$ 9.01 - $14.33	1,044	2.41	10.76	1,033	10.77
$ 14.34 - $16.69	1,028	4.56	15.82	1,028	15.82
$ 16.70 - $44.50	773	4.31	25.69	773	25.68
	10,383	6.60	$ 8.98	6,832	$ 10.31

As of September 24, 2005, the number of options exercisable was 6.0 million.

Options outstanding that are expected to vest are net of estimated future option forfeitures in accordance with the provisions of SFAS No. 123(R). Options with a fair value of $0.4 million and $1.1 million became vested during the second quarter of fiscal years 2007 and 2006, respectively. Options with a fair value of $4.2 million and $2.4 million became vested during the first six months of fiscal years 2007 and 2006, respectively.

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If we had recorded stock-based compensation cost based upon the Black-Scholes fair value at the grant date for awards granted under the Stock Plans consistent with the optional methodology prescribed under SFAS No. 123 during the second quarter and first six months of fiscal year 2006, the net income and earnings per share would have been as shown below (in thousands, except per share amounts; unaudited):

	Three Months Ended September 24, 2005	Six Months Ended September 24, 2005
Net income (loss) as reported	$ (1,109)	$ 24,799
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	1,010	1,094
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of tax related effects	(1,388)	(3,712)
Proforma net income (loss)	$ (1,487)	$ 22,181
Basic and diluted net income (loss) per share as reported	$ (0.01)	$ 0.29
Proforma basic and diluted net income (loss) per share	$ (0.02)	$ 0.26
Diluted net income (loss) per share as reported	$ (0.01)	$ 0.28
Proforma diluted net income (loss) per share	$ (0.02)	$ 0.26

For purposes of pro forma disclosures, the estimated fair value of the options were amortized to expense over the vesting period (for options) using the accelerated method.

We estimated the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model using the following assumptions:

	Three Months Ended		Six Months Ended	
	September 23, 2006	September 24, 2005	September 23, 2006	September 24, 2005
Employee Option Plans:				
Expected stock price volatility	47.80%			