CIRRUS LOGIC INC
Form 10-Q
January 27, 2016

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 December 26, 2015

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 (State or other jurisdiction of incorporation or organization)	77-0024818 (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 Web site, 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, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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 Exchange Act). YES NO

The number of shares of the registrant's common stock, $0.001 par value, outstanding as of January 22, 2016 was 63,121,642.

CIRRUS LOGIC, INC.

FORM 10-Q QUARTERLY REPORT

QUARTERLY PERIOD ENDED DECEMBER 26, 2015

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ITEM 1. FINANCIAL STATEMENTS

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

	December 26, 2015 (unaudited)	March 28, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 159,572	$ 76,401
Marketable securities	67,148	124,246
Accounts receivable, net	127,754	112,608
Inventories	137,723	84,196
Deferred tax assets	19,404	18,559
Prepaid assets	29,870	27,093
Other current assets	8,112	8,810
Total current assets	549,583	451,913
Long-term marketable securities	22,327	60,072
Property and equipment, net	159,149	144,346
Intangibles, net	171,664	175,743
Goodwill	287,518	263,115
Deferred tax assets	27,581	25,593
Other assets	18,099	27,996
Total assets	$ 1,235,921	$ 1,148,778
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 114,483	$ 112,213
Accrued salaries and benefits	22,438	24,132
Deferred income	4,162	6,105
Software license agreements	20,155	18,711
Other accrued liabilities	16,146	15,417
Total current liabilities	177,384	176,578
Long-term liabilities:		
Debt	160,439	180,439
Software license agreements	11,051	26,204

Other long-term liabilities	27,172	8,786
Total long-term liabilities	198,662	215,429
Stockholders' equity:		
Capital stock	1,198,547	1,159,494
Accumulated deficit	(336,653)	(400,613)
Accumulated other comprehensive loss	(2,019)	(2,110)
Total stockholders' equity	859,875	756,771
Total liabilities and stockholders' equity	$ 1,235,921	$ 1,148,778

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		Nine Months Ended	
	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
Net sales	$ 347,863	$ 298,606	$ 937,252	$ 661,385
Cost of sales	182,952	167,775	497,666	354,612
Gross profit	164,911	130,831	439,586	306,773
Operating expenses				
Research and development	70,290	55,474	203,383	139,808
Selling, general and administrative	30,632	27,783	89,854	69,011
Acquisition related costs	-	3,200	-	18,137
Restructuring and other, net	-	-	-	1,455
Patent agreement and other	78	-	(11,670)	-
Total operating expenses	101,000	86,457	281,567	228,411
Income from operations	63,911	44,374	158,019	78,362
Interest income	165	89	634	419
Interest expense	(756)	(1,131)	(2,464)	(4,598)
Other expense	(925)	(1,071)	(1,313)	(12,564)
Income before income taxes	62,395	42,261	154,876	61,619
Provision for income taxes	21,011	19,532	45,258	27,790
Net income	41,384	22,729	109,618	33,829
Basic earnings per share	$ 0.65	$ 0.36	$ 1.73	$ 0.54
Diluted earnings per share	$ 0.63	$ 0.35	$ 1.66	$ 0.52
Basic weighted average common shares outstanding	63,328	62,885	63,316	62,386
Diluted weighted average common shares outstanding	65,761	65,214	66,184	65,024

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		Nine Months Ended	
	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
Net income	41,384	22,729	109,618	33,829
Other comprehensive income (loss), before tax				
Changes to foreign currency				
Foreign currency translation	(4)	-	174	-
Changes to available-for-sale securities				
Unrealized gain (loss) on marketable securities	(104)	(51)	(183)	91
Changes to pension liabilities				
Reclassification of actuarial loss to net income	17	-	49	-
Net changes to foreign currency derivatives				
Reclassification of unrealized loss to net income	-	29	-	-
Benefit (provision) for income taxes	37	18	51	(32)
Comprehensive income	$ 41,330	$ 22,725	$ 109,709	$ 33,888

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

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

	Nine Months Ended December 26, 2015		December 27, 2014	
Cash flows from operating activities:				
Net income	$	109,618	$	33,829
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		43,254		21,978
Stock compensation expense		24,717		29,813
Deferred income taxes		8,021		24,931
Loss on retirement or write-off of long-lived assets		1,405		949
Excess tax benefit from employee stock awards		(9,350)		(24,508)
Other non-cash charges		14,381		16,129
Net change in operating assets and liabilities:				
Accounts receivable, net		(15,066)		(73,122)
Inventories		(53,527)		26,377
Other current assets		(4,645)		2,733
Accounts payable and other accrued liabilities		861		888
Deferred income		(1,943)		(765)
Income taxes payable		(1,428)		484
Net cash provided by operating activities		116,298		59,716
Cash flows from investing activities:				
Proceeds from sale of available for sale marketable securities		117,397		272,510
Purchases of available for sale marketable securities		(22,672)		(29,256)
Purchases of property, equipment and software		(33,720)		(19,927)
		(3,981)		(1,346)

Investments in technology				
Loss on foreign exchange hedging activities		-		(11,976)
Acquisition of Wolfson, net of cash obtained		-		(444,138)
Acquisition of businesses, net of cash obtained		(36,788)		-
Increase in deposits and other assets		(2,012)		(692)
Net cash provided by (used in) investing activities		18,224		(234,825)
Cash flows from financing activities:				
Proceeds from long-term revolver		-		226,439
Principal payments on long-term revolver		(20,000)		(26,000)
Debt issuance costs		-		(2,825)
Issuance of common stock, net of shares withheld for taxes		4,958		2,454
Repurchase of stock to satisfy employee tax withholding obligations		(6,459)		(4,175)
Repurchase and retirement of common stock		(39,200)		(10,535)
Excess tax benefit from employee stock awards		9,350		24,508
Net cash (used in) provided by financing activities		(51,351)		209,866
Net increase in cash and cash equivalents		83,171		34,757
Cash and cash equivalents at beginning of period		76,401		31,850
Cash and cash equivalents at end of period	$	159,572	$	66,607

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 28, 2015, included in our Annual Report on Form 10-K filed with the Commission on May 27, 2015. 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 FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (ASC Topic 606). The purpose of this ASU is to converge revenue recognition requirements per 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 respondents 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 evaluating the impact of this ASU on its financial statements.

In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") No. 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The amendments in this ASU provide guidance in GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The amendments are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The Company is currently evaluating this ASU and expects no material modifications to its financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this update require that debt issuance costs related to a recognized debt liability are presented in the balance sheet as a direct deduction from the carrying amount of that debt liability and that the amortization of debt issuance costs is reported as interest expense. ASU 2015-03 is to be applied retrospectively and represents a change in accounting principle. In August 2015, the FASB issued FASB ASU No. 2015-15, Interest—Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. ASU 2015-15 clarified the presentation and subsequent measurement of debt issuance costs related to line-of-credit arrangements. Debt issuance costs related to a line-of-credit arrangement may be presented in the balance sheet as an asset and subsequently amortized ratably over the term of the arrangement regardless of whether there are any outstanding borrowings. Both ASU 2015-03 and ASU 2015-15 are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. Earlier adoption is permitted for financial statements that have not been previously issued. The Company is currently evaluating the effect that the adoption of these ASUs will have on its financial statements.

In April 2015, the FASB issued ASU No. 2015-04, Compensation – Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets. The ASU is part of the FASB's "Simplification Initiative" to reduce complexity in accounting standards. The FASB decided to permit entities to measure defined benefit plan assets and obligations as of the month-end that is closest to their fiscal year-end. An entity is required to disclose the accounting policy election and the date used to measure defined benefit plan assets and obligations in accordance with the amendments in this update. The amendments in this update are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with earlier application permitted. The Company is currently evaluating the likelihood of adoption and the impact this ASU would have on its financial statements.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. This ASU requires an acquirer in a business combination to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The effect on earnings of changes in depreciation, amortization or other income effects, as a result of the change in provisional amounts, are to be included in the same period's financial statements, calculated as if the accounting had been completed at the acquisition date. The amendments in this update are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years and shall be applied prospectively to adjustments to provisional amounts that occur after the effective date of this ASU. Earlier application is permitted for financial statements that have not been issued. The Company is currently evaluating this ASU and its impact on the financial statements.

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. The FASB determined that the current practice of separating deferred tax liabilities and assets into current and noncurrent amounts in the balance sheet resulted in little to no benefit to financial statement users. Effective for financial statements issued for annual periods beginning after December 15, 2016 and interim periods therein, this ASU will require that deferred tax liabilities and assets be classified as noncurrent. Earlier application is permitted as of the beginning of an interim or annual reporting period and can be applied either prospectively to all deferred tax assets and liabilities or retrospectively to all periods presented. The Company is currently evaluating this ASU and its impact on the financial statements.

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 December 26, 2015 (in thousands):

As of December 26, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value (Net Carrying Amount)
Corporate debt securities	$ 89,731	$ -	$ (256)	$ 89,475

The Company’s specifically identified gross unrealized losses of $256 thousand relate to 28 different securities with total amortized cost of approximately $88.7 million at December 26, 2015. Because the Company does not intend to sell the investments at a loss and the Company will not be required to sell the investments before recovery of its amortized cost basis, it did not consider the investment in these securities to be other-than-temporarily impaired at December 26, 2015. Further, the securities with gross unrealized losses had been in a continuous unrealized loss position for less than 12 months as of December 26, 2015.

The following table is a summary of available-for-sale securities at March 28, 2015 (in thousands):

As of March 28, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value (Net Carrying Amount)
Corporate debt securities	$ 153,896	$ 8	$ (68)	$ 153,836
U.S. Treasury securities	28,010	-	(15)	27,995
Commercial paper	2,485	2	-	2,487
Total securities	$ 184,391	$ 10	$ (83)	$ 184,318

The Company's specifically identified gross unrealized losses of $83 thousand relate to 34 different securities with total amortized cost of approximately $154.3 million at March 28, 2015. Because the Company did not intend to sell the investments at a loss and the Company did not expect to be required to sell the investments before recovery of its amortized cost basis, it did not consider the investment in these securities to be other-than-temporarily impaired at March 28, 2015. Further, the securities with gross unrealized losses had been in a continuous unrealized loss position for less than 12 months as of March 28, 2015.

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

	December 26, 2015		March 28, 2015	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within 1 year	$ 67,235	$ 67,148	$ 124,275	$ 124,246
After 1 year	22,496	22,327	60,116	60,072
Total	$ 89,731	$ 89,475	$ 184,391	$ 184,318

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 corporate debt securities, money market funds, U.S. Treasury securities, 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 portfolio managers 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 initially 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.

The Company's long-term revolving facility, described in Note 8, bears interest at a base rate plus applicable margin or LIBOR plus applicable margin. As of December 26, 2015, the fair value of the Company's long-term revolving facility approximates carrying value.

As of December 26, 2015 and March 28, 2015, the Company classified all of its investment portfolio and pension plan assets as Level 1 or Level 2 assets. 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 nine months ending December 26, 2015.

The following table summarizes the fair value of our financial instruments, exclusive of pension plan assets, at December 26, 2015, (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	$ 7,876	$ -	$ -	$ 7,876
Available-for-sale securities				
Corporate debt securities	$ -	$ 89,475	$ -	$ 89,475
Liabilities:				

Other accrued liabilities				
Contingent consideration	$ -	$ -	$ 8,600	$ 8,600

The fair value of our financial assets at March 28, 2015, was determined using the following inputs (in thousands):

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	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Cash equivalents				
Money market funds	$ 996	$ -	$ -	$ 996
Available-for-sale securities				
Corporate debt securities	$ -	$ 153,836	$ -	$ 153,836
U.S. Treasury securities	27,995	-	-	27,995
Commercial paper	-	2,487	-	2,487
	$ 27,995	$ 156,323	$ -	$ 184,318

Contingent consideration

	Maximum Value if Milestones Achieved (in thousands)	Estimated Discount Rate (%)	Fair Value (in thousands)
Tranche A - 18 month earn out period	$ 5,000	7.3	$ 4,500
Tranche B - 30 month earn out period	5,000	7.7	4,100
	$ 10,000		$ 8,600

The valuation of contingent consideration was initially based on a weighted-average discounted cash flows 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. A change in projected outcomes if milestones are achieved would be accompanied by a directionally similar change in fair value. A change in discount rate would be accompanied by a directionally opposite change in fair value. Changes to the fair value due to changes in assumptions would be reported in research and development expense in the Consolidated Condensed Statements of Income. No such changes to the observable inputs were noted in the current fiscal quarter.

5. Accounts Receivable, net

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

	December 26, 2015	March 28, 2015
Gross accounts receivable	$ 128,109	$ 112,964
Allowance for doubtful accounts	(355)	(356)
Accounts receivable, net	$ 127,754	$ 112,608

6. Inventories

Inventories are comprised of the following (in thousands):

	December 26, 2015	March 28, 2015
Work in process	$ 77,378	$ 64,663
Finished goods	60,345	19,533
	$ 137,723	$ 84,196

The increase in inventory balances at December 26, 2015, as compared to March 28, 2015, is primarily related to production ramps ahead of customer demand.

7. Acquisitions

Cirrus Logic completed the acquisition of Wolfson Microelectronics plc (the "Acquisition"), a public limited company incorporated in Scotland ("Wolfson") in the second quarter of fiscal year 2015. Upon completion of the Acquisition, Wolfson was re-registered as a private limited company.

The Acquisition was accounted for as a business purchase pursuant to ASC Topic 805, Business Combinations, and the operations of Wolfson have been included in the Company's consolidated financial statements since August 21, 2014, the date of acquisition. The following table presents the final allocation of the purchase price to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition as of December 26, 2015 (in thousands):

	Amount
Cash and cash equivalents	$ 25,342
Inventory	30,530

Other current assets		16,226
Property, plant and equipment		27,398
Intangible assets		175,987
Pension assets		1,625
Total identifiable assets acquired	$	277,108
Deferred tax liability		(12,426)
Deferred revenue		(551)
Other accrued liabilities		(39,417)
Other long-term liabilities		(2,449)
Total identifiable liabilities assumed	$	(54,843)
Net identifiable assets acquired	$	222,265
Goodwill		247,216
Net assets acquired	$	469,481

The goodwill of $247.2 million arising from the Acquisition is attributable primarily to expected synergies and the product and customer base of Wolfson. None of the goodwill is expected to be deductible for income tax purposes.

The components of the acquired intangible assets and related weighted average amortization periods are detailed below (in thousands):

Intangible assets	Amount	Weighted-average Amortization Period (years)
Developed technology	$ 74,247	6.2
Technology intellectual property	14,572	5.3
Trademark	1,437	1.3
IPR&D	72,750	7.3
Customer relationships	12,981	10.0
Total	$ 175,987	

In the second quarter of fiscal year 2016, the Company acquired two small technology companies for approximately $36.8 million, net of cash obtained, with the goal of broadening its software capabilities. The acquisitions were recorded using the acquisition method of accounting. The Company is currently finalizing the amounts recorded, including review of working capital; however we do not expect a material change to the balances presented. The Company expects to complete its purchase price allocation by fiscal year end. The consolidated condensed statements of income presented include the results of operations of each acquired company since the date of the acquisition. Pro forma information related to these acquisitions has not been presented because it would not be materially different from amounts reported. See Note 4 – Fair Value of Financial Instruments above, for additional information related to contingent consideration reported in relation to one of the acquisitions.

8. Revolving Credit Facilities

Cirrus Logic’s credit agreement (the “Credit Agreement”) with Wells Fargo Bank, National Association, as Administrative Agent, and the Lenders party thereto provides for a $250 million senior secured revolving credit facility (the “Credit Facility”). The Credit Facility replaced Cirrus Logic’s interim credit facility described below, and may be used for general corporate purposes. The Credit Facility matures on August 29, 2017.

The Credit 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 Credit Facility may, at Cirrus Logic’s 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 0.25% per annum for Base Rate Loans and 1.50% to 2.00% per annum for LIBOR Rate Loans based on Cirrus Logic’s Leverage Ratio (discussed below). A Commitment Fee accrues at a rate per annum ranging from 0.25% to 0.35% (based on the Leverage Ratio) on the average daily unused portion of the Commitment of the Lenders.

The Credit Agreement contains customary affirmative covenants, including, among others, covenants regarding the payment of taxes and other obligations, maintenance of insurance, reporting requirements and compliance with applicable laws and regulations. Further, the Credit Agreement contains customary negative covenants limiting the ability of Cirrus Logic or any subsidiary to, among other things, incur debt, grant liens, make investments, effect certain fundamental changes, make certain asset dispositions, and make certain restricted payments. The Credit Facility also contains certain financial covenants providing that (a) the ratio of consolidated funded indebtedness to consolidated EBITDA for the prior four consecutive quarters must not be greater than 2.00 to 1.00 (the “Leverage Ratio”) and (b) the sum of cash and Cash Equivalents of Cirrus Logic and its subsidiaries on a consolidated basis must not be less than $100 million. At December 26, 2015, the Company was in compliance with all covenants under the Credit Agreement.

On June 23, 2015, Cirrus Logic and Wells Fargo Bank, National Association, as Administrative Agent, entered into a first amendment of the Credit Agreement (the “First Amendment”). The First Amendment primarily provides additional flexibility to the Company for certain intercompany transactions. In

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particular, the First Amendment (i) amended the definition of “Permitted Acquisition” to increase the threshold whereby the Company must provide certain financial statements and certifications to the Administrative Agent; (ii) expanded the Company’s ability to make intercompany investments, including unsecured intercompany indebtedness to fund a Permitted Acquisition; and (iii) provided the Company with the ability, under certain circumstances, to transfer capital stock in a non-guarantor subsidiary to another wholly-owned subsidiary that is not a credit party.

The Company had borrowed $160.4 million under the Credit Facility as of December 26, 2015, which is included in long-term liabilities on the consolidated condensed balance sheets. The borrowings were primarily used for refinancing the $225 million interim credit facility described below, which was used for financing the Acquisition in the second quarter of fiscal year 2015.

Cirrus Logic entered into a credit agreement (the “Interim Credit Agreement”) with Wells Fargo Bank, National Association as administrative agent and lender, on April 29, 2014, in connection with the Acquisition. The Interim Credit Agreement provided for a $225 million senior secured revolving credit facility (the “Interim Facility”). The Interim Facility was to be used for, among other things, payment of the offer consideration in connection with the Acquisition. The Interim Facility was replaced with the Credit Facility described above, with all outstanding borrowings thereunder refinanced by the Credit Facility.

9. Patent Agreement and Other

On May 8, 2015, we entered into a patent purchase agreement for the sale of certain Company-owned patents relating to our LED lighting products. As a result of this agreement, on June 22, 2015, the Company received cash consideration of $12.5 million from the purchaser. Under the agreement, the Company undertook to no longer be engaged in LED lighting and received a license under the sold patents for all other fields of use. The proceeds were recorded during the first quarter of fiscal year 2016 as a recovery of costs previously incurred and are reflected as a separate line item on the Consolidated Condensed Statements of Income in operating expenses under the caption “Patent agreement and other.” Additionally, in the second and third quarter of fiscal year 2016, the Company recorded $0.8 million and $0.1 million, respectively, in expense related to a negotiated adjustment to a legal settlement.

10. 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		Nine Months Ended	
	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
Income before income taxes	$ 62,395	$ 42,261	$ 154,876	$ 61,619
Provision for income taxes	$ 21,011	$ 19,532	$ 45,258	$ 27,790
Effective tax rate	33.7%	46.2%	29.2%	45.1%

Our income tax expense for the third quarter and first nine months of fiscal year 2016 was below the federal statutory rate primarily due to the permanent extension of the U.S. R&D credit by the Consolidated Appropriations Act, 2016, which was enacted on December 18, 2015. Income tax expense for the first nine months of fiscal year 2016 was further reduced by a one-time tax benefit of $4.6 million associated with deferred taxes related to U.S. R&D credit carry forwards recorded in the second quarter of fiscal year 2016. Our income tax expense for the third quarter and first nine months of fiscal year 2015 was above the federal statutory rate primarily due to the inclusion of foreign losses in the period from the close of the Acquisition to the end of the period at foreign statutory rates below the U.S. federal statutory rate, which was partially offset by the extension of the U.S. R&D credit through December 31, 2014 by the Tax Increase Prevention Act of 2014, which was enacted on December 19, 2014.

We record unrecognized tax benefits for the estimated risk associated with tax positions taken on tax returns. As of December 26, 2015, the Company had unrecognized tax benefits of $13.8 million, all of which would affect the effective tax rate if recognized. The Company's total unrecognized tax benefits are classified as "Other long-term liabilities" in the consolidated condensed balance sheets. We recognize interest and penalties related to unrecognized tax benefits in the provision for income taxes. As of December 26, 2015, the balance of accrued interest and penalties was zero. No interest or penalties were incurred during the first nine months of fiscal year 2016 or 2015.

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 2013 through 2015 remain open to examination by the major taxing jurisdictions to which we are subject, although carry forward attributes that were generated in tax years prior to fiscal year 2013 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.

11. Pension Plan

The components of the Company's net periodic pension expense for the three and nine months ended December 26, 2015 and December 27, 2014 are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
Expenses	$ -	$ -	$ -	$ -
Interest cost	-	-	-	254
Expected return on plan assets	-	-	-	(370)
Amortization of actuarial loss	17	-	49	-
	$ 17	$ -	$ 49	$ (116)

Based on an actuarial study performed as of March 28, 2015, the defined benefit pension plan is underfunded and a long-term liability is reflected in the Company's consolidated condensed balance sheet under the caption "Other long-term liabilities".

12. 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 the tax affected outstanding stock options and restricted stock awards.

The following table details the calculation of basic and diluted earnings per share for the three and nine months ended December 26, 2015 and December 27, 2014 (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
Numerator:				
Net income	$ 41,384	$ 22,729	$ 109,618	$ 33,829
Denominator:				
Weighted average shares outstanding	63,328	62,885	63,316	62,386
Effect of dilutive securities	2,433	2,329	2,868	2,638
Weighted average diluted shares	65,761	65,214	66,184	65,024
Basic earnings per share	$ 0.65	$ 0.36	$ 1.73	$ 0.54
Diluted earnings per share	$ 0.63	$ 0.35	$ 1.66	$ 0.52

The weighted outstanding shares excluded from our diluted calculation for the three and nine months ended December 26, 2015 were 563 thousand and 374 thousand, respectively, as the shares were anti-dilutive. The weighted outstanding shares excluded from our diluted calculation for the three and nine months ended December 27, 2014 were 911 thousand and 715 thousand, respectively, as the shares were anti-dilutive.

13. 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 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. While there can be no assurances in light of the inherent uncertainties involved in any potential legal proceedings, some of which are beyond our control, an adverse outcome in any legal proceeding could be material to our results of operations or cash flows for any particular reporting period.

14. Stockholders' Equity

Common Stock

The Company issued a net 0.6 million and 1.4 million shares of common stock during the three and nine month periods ending December 26, 2015, respectively, in connection with stock issuances primarily pursuant to the Company's 2006 Stock Incentive Plan. The Company issued a net 0.7 million and 1.3 million shares of common stock during the three and nine month periods ending December 27, 2014, respectively, in connection with stock issuances primarily pursuant to the Company's 2006 Stock Incentive Plan.

Share Repurchase Program

Since inception, $187.5 million of the Company's common stock has been repurchased under the Company's 2012 $200 million share repurchase program, leaving $12.5 million available for repurchase under this plan as of December 26, 2015. During the three months ended December 26, 2015, the Company repurchased 0.7 million shares of its common stock for $20.0 million, at an average cost of $29.08. During the nine months ended December 26, 2015, the Company repurchased 1.3 million shares of its common stock for $39.2 million, at an average cost of $29.26. 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 December 26, 2015. In October 2015, the Board of Directors authorized the repurchase of up to an additional $200 million of the Company's common stock, in addition to the remaining available above.

Accumulated Other Comprehensive Loss

In the first quarter of fiscal year 2016, the Company updated the functional currencies of its smaller foreign entities (from the U.S. dollar to certain local currencies). As a result, the Company is now presenting the effect of foreign currency translation, which resulted in an insignificant amount and $0.2 million gain for the quarter and nine months ended December 26, 2015, respectively. Additionally, in the current fiscal year, the Company is amortizing the pension actuarial losses out of accumulated other comprehensive income / (loss) to selling, general and administrative expenses. See Note 11 - Pension Plan above. The gains and losses are presented within other comprehensive income in the Consolidated Condensed Statements of Comprehensive Income.

15. 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, which, beginning in the second quarter of fiscal year 2015, are 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 level. Additionally, our product lines have similar characteristics and customers. They share operations support functions such as sales, public relations, supply chain management, various research and development and engineering support, in addition to the general and administrative functions of human resources, legal, finance and information technology. Therefore, no complete, discrete financial information is maintained for these product lines.

Revenues from our product lines are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
Portable Audio Products	$ 308,803	$ 253,355	$ 801,821	$ 529,487
Non-Portable Audio and Other Products	39,060	45,251	135,431	131,898
	$ 347,863	$ 298,606	$ 937,252	$ 661,385

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 28, 2015, contained in our fiscal year 2015 Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “Commission”) on May 27, 2015. We maintain a web site 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," "estimates," "intend," and variations of these types of words and 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 2015 Annual Report on Form 10-K filed with the Commission on May 27, 2015, 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") develops high-precision, analog and mixed-signal integrated circuits ("ICs") for a broad range of innovative customers. Building on our diverse analog and signal-processing patent portfolio, Cirrus Logic delivers highly optimized products for a variety of audio, industrial and energy-related 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 nine months of fiscal year 2016 to the information provided under the heading "Critical Accounting Policies" included in our Annual Report on Form 10-K for the fiscal year ended March 28, 2015.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (ASC Topic 606). The purpose of this ASU is to converge revenue recognition requirements per 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 respondents 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 evaluating the impact of this ASU on its financial statements.

In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") No. 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The amendments in this ASU provide guidance in GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The amendments are effective for the annual period ending after December 15, 2016, and for

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annual periods and interim periods thereafter. Early application is permitted. The Company is currently evaluating this ASU and expects no material modifications to its financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this update require that debt issuance costs related to a recognized debt liability are presented in the balance sheet as a direct deduction from the carrying amount of that debt liability and that the amortization of debt issuance costs is reported as interest expense. ASU 2015-03 is to be applied retrospectively and represents a change in accounting principle. In August 2015, the FASB issued FASB ASU No. 2015-15, Interest—Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. ASU 2015-15 clarified the presentation and subsequent measurement of debt issuance costs related to line-of-credit arrangements. Debt issuance costs related to a line-of-credit arrangement may be presented in the balance sheet as an asset and subsequently amortized ratably over the term of the arrangement regardless of whether there are any outstanding borrowings. Both ASU 2015-03 and ASU 2015-15 are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. Earlier adoption is permitted for financial statements that have not been previously issued. The Company is currently evaluating the effect that the adoption of these ASUs will have on its financial statements.

In April 2015, the FASB issued ASU No. 2015-04, Compensation – Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer’s Defined Benefit Obligation and Plan Assets. The ASU is part of the FASB’s “Simplification Initiative” to reduce complexity in accounting standards. The FASB decided to permit entities to measure defined benefit plan assets and obligations as of the month-end that is closest to their fiscal year-end. An entity is required to disclose the accounting policy election and the date used to measure defined benefit plan assets and obligations in accordance with the amendments in this update. The amendments in this update are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with earlier application permitted. The Company is currently evaluating the likelihood of adoption and the impact this ASU would have on its financial statements.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. This ASU requires an acquirer in a business combination to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The effect on earnings of changes in depreciation, amortization or other income effects, as a result of the change in provisional amounts, are to be included in the same period’s financial statements, calculated as if the accounting had been completed at the acquisition date. The amendments in this update are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years and shall be applied prospectively to adjustments to provisional amounts that occur after the effective date of this ASU. Earlier application is permitted for financial statements that have not been issued. The Company is currently evaluating this ASU and its impact on the financial statements.

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes.   The FASB determined that the current practice of separating deferred tax liabilities and assets into current and noncurrent amounts in the balance sheet resulted in little to no benefit to financial statement users. Effective for financial statements issued for annual periods beginning after December 15, 2016 and interim periods therein, this ASU will require that deferred tax liabilities and assets be classified as noncurrent. Earlier application is permitted as of the beginning of an interim or annual reporting period and can be applied either prospectively to all deferred tax assets and liabilities or retrospectively to all periods presented. The Company is currently evaluating this ASU and its impact on the financial statements.

Results of Operations

The following table summarizes the results of our operations for the three and nine months of fiscal years 2016 and 2015 as a percentage of net sales. All percentage amounts were calculated using the underlying data in thousands, unaudited:

	Three Months Ended		Nine Months Ended	
	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
Net sales	100%	100%	100%	100%
Gross margin	47%	44%	47%	46%
Research and development	20%	19%	22%	21%
Selling, general and administrative	9%	9%	9%	10%
Acquisition related costs	0%	1%	0%	3%
Restructuring and other, net	0%	0%	0%	0%
Patent agreement and other	0%	0%	-1%	0%
Income from operations	18%	15%	17%	12%
Interest income	0%	0%	0%	0%
Interest expense	0%	-1%		