CIRRUS LOGIC INC
Form 10-Q
February 05, 2018

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 30, 2017
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from ____ to ____
Commission File Number 0-17795
CIRRUS LOGIC, INC.
(Exact name of registrant as specified in its charter)

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

800 W. 6th Street, Austin, TX 78701
(Address of principal executive offices)
Registrant’s telephone number, including area code: (512) 851-4000
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES þ NO
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES þ NO
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 13(a) of the Exchange Act.
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES NO þ
The number of shares of the registrant's common stock, $0.001 par value, outstanding as of February 1, 2018 was 63,366,331.

CIRRUS LOGIC, INC.
FORM 10-Q QUARTERLY REPORT
QUARTERLY PERIOD ENDED DECEMBER 30, 2017
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Part I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
CIRRUS LOGIC, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(in thousands)

	December 30, 2017 (unaudited)	March 25, 2017
Assets		
Current assets:		
Cash and cash equivalents	$226,640	$351,166
Marketable securities	12,822	99,813
Accounts receivable, net	217,619	119,974
Inventories	192,967	167,895
Prepaid assets	19,425	24,987
Other current assets	10,020	12,093
Total current assets	679,493	775,928
Long-term marketable securities	173,717	—
Property and equipment, net	187,143	168,139
Intangibles, net	126,183	135,188
Goodwill	288,481	286,767
Deferred tax assets	16,467	32,841
Other assets	21,841	14,607
Total assets	$1,493,325	$1,413,470
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$116,274	$73,811
Accrued salaries and benefits	29,543	40,190
Software license agreements	7,270	14,990
Other accrued liabilities	22,633	15,084
Total current liabilities	175,720	144,075
Long-term liabilities:		
Debt	—	60,000
Software license agreements	7,357	3,146
Other long-term liabilities	98,882	54,557
Total long-term liabilities	106,239	117,703
Stockholders' equity:		
Capital stock	1,301,800	1,259,279
Accumulated deficit	(92,402)	(107,014)
Accumulated other comprehensive income (loss)	1,968	(573)
Total stockholders' equity	1,211,366	1,151,692
Total liabilities and stockholders' equity	$1,493,325	$1,413,470

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

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

	Three Months Ended		Nine Months Ended	
	December 30, 2017	December 24, 2016	December 30, 2017	December 24, 2016
Net sales	$482,741	$523,029	$1,229,013	$1,211,076
Cost of sales	247,653	267,877	620,927	617,540
Gross profit	235,088	255,152	608,086	593,536
Operating expenses				
Research and development	96,978	76,079	270,888	225,686
Selling, general and administrative	34,604	32,884	95,504	95,513
Total operating expenses	131,582	108,963	366,392	321,199
Income from operations	103,506	146,189	241,694	272,337
Interest income	1,191	415	3,125	978
Interest expense	(279)	(765)	(894)	(3,020)
Other income (expense)	322	(47)	(813)	(161)
Income before income taxes	104,740	145,792	243,112	270,134
Provision for income taxes	70,961	23,751	93,121	43,983
Net income	33,779	122,041	149,991	226,151
Basic earnings per share	$0.53	$1.91	$2.36	$3.59
Diluted earnings per share	$0.52	$1.83	$2.26	$3.41
Basic weighted average common shares outstanding	63,453	63,837	63,655	63,025
Diluted weighted average common shares outstanding	65,557	66,748	66,377	66,378

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 30, 2017	December 24, 2016	December 30, 2017	December 24, 2016
Net income	$33,779	$122,041	$149,991	$226,151
Other comprehensive income (loss), before tax				
Foreign currency translation gain (loss)	(811)	(500)	2,500	(247)
Unrealized gain (loss) on marketable securities	(842)	40	(794)	31
Actuarial gain (loss) on pension plan	—	(2,646)	792	(2,646)
Reclassification of actuarial gain to net income	—	(27)	—	(80)
Benefit for income taxes	194	461	43	481
Comprehensive income	$32,320	$119,369	$152,532	$223,690

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 30, 2017	December 24, 2016
Cash flows from operating activities:		
Net income	$149,991	$226,151
Adjustments to reconcile net income to net cash generated by operating activities:		
Depreciation and amortization	59,175	47,989
Stock compensation expense	36,208	28,708
Deferred income taxes	13,260	5,285
Loss on retirement or write-off of long-lived assets	461	424
Other non-cash adjustments	(3,692)	(2,547)
Net change in operating assets and liabilities:		
Accounts receivable, net	(97,645)	(158,098)
Inventories	(25,072)	(12,113)
Other assets	8,289	(1,215)
Accounts payable and other accrued liabilities	27,361	96,673
Income taxes payable	44,687	13,636
Net cash generated by operating activities	213,023	244,893
Cash flows from investing activities:		
Maturities and sales of available-for-sale marketable securities	128,536	157,234
Purchases of available-for-sale marketable securities	(215,878)	(148,342)
Purchases of property, equipment and software	(38,606)	(26,380)
Investments in technology	(23,280)	(8,920)
Net cash used in investing activities	(149,228)	(26,408)
Cash flows from financing activities:		
Principal payments on long-term revolver	(60,000)	(60,439)
Debt issuance costs	—	(2,152)
Payments on capital lease agreements	—	(699)
Issuance of common stock, net of shares withheld for taxes	6,315	14,869
Repurchase of stock to satisfy employee tax withholding obligations	(19,086)	(13,043)
Repurchase and retirement of common stock	(115,550)	(15,439)
Net cash used in financing activities	(188,321)	(76,903)
Net (decrease) increase in cash and cash equivalents	(124,526)	141,582
Cash and cash equivalents at beginning of period	351,166	168,793
Cash and cash equivalents at end of period	$226,640	$310,375

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

CIRRUS LOGIC, INC.
NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(unaudited)
1. Basis of Presentation

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

2. Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (ASC Topic 606). The purpose of this ASU is to converge revenue recognition requirements per U.S. GAAP and International Financial Reporting Standards ("IFRS"). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date after public comment supported a proposal to delay the effective date of this ASU to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. The Company is currently in the process of reviewing our customers' contracts in respect of performance obligation identification and satisfaction, pricing, warranties, and return rights, among other considerations. The process is substantially complete and the Company currently expects no material modifications to its financial statements upon adoption of this ASU. The standard may be adopted by full retrospective method, which applies retrospectively to each prior period presented, or by modified retrospective method with the cumulative effect adjustment recognized in beginning retained earnings as of the date of adoption. We anticipate using the modified retrospective adoption method.

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

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

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

Company early adopted this ASU in the first quarter of fiscal year 2018 with a $0.7 million impact to beginning retained earnings.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The update states that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business, and should be treated as an asset acquisition instead. This ASU is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted under specific circumstances, including in an interim period, with prospective application. The Company adopted this ASU and applied the related guidance to an asset acquisition in the first quarter of fiscal year 2018.

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

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

3. Marketable Securities

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

The following table is a summary of available-for-sale securities at December 30, 2017 (in thousands):

As of December 30, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value (Net Carrying Amount)
Corporate debt securities	$ 174,603	$ 5	$ (787)	$ 173,821
Non-US government securities	11,819	—	(58)	11,761
Certificates of deposit	500	—	—	500
Agency discount notes	459	—	(2)	457
Total securities	$ 187,381	$ 5	$ (847)	$ 186,539

The Company typically invests in highly-rated securities with original maturities generally ranging from one to three years. The Company's specifically identified gross unrealized loss of $847 thousand related to securities with total amortized cost of approximately $181.0 million at December 30, 2017. No securities have been in a continuous unrealized loss position for more than 12 months as of December 30, 2017. The Company may sell certain of its marketable securities prior to their stated maturities for strategic reasons including, but not limited to, anticipated or actual changes in credit rating and duration management. When evaluating an investment for other-than-temporary impairment, the Company reviews factors including the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer, changes in market interest rates and whether it is more likely than not the Company will be required to sell the investment before recovery of the investment's cost basis. As of December 30, 2017, the Company does not consider any of its investments to be other-than-temporarily impaired.

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

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

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

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

	December 30, 2017		March 25, 2017	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within 1 year	$ 12,846	$ 12,822	$ 99,868	$ 99,813
After 1 year	174,535	173,717	—	—
Total	$ 187,381	$ 186,539	$ 99,868	$ 99,813

4. Fair Value of Financial Instruments

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

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

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

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

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

In connection with one of the Company's prior acquisitions accounted for as a business combination, the Company reported contingent consideration based upon achievement of certain milestones. This liability is classified as Level 3 and valued using a discounted cash flow model. The assumptions used in preparing the discounted cash flow include discount rate estimates and cash flow amounts. See additional details below.

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

As of December 30, 2017 and March 25, 2017, the Company classified all investment portfolio and pension plan assets and liabilities as Level 1 or Level 2 assets and liabilities. The only Level 3 liability is the contingent consideration described above and below. The Company has no Level 3 assets. There were no transfers between Level 1, Level 2, or Level 3 measurements for the three months ending December 30, 2017.

The following summarizes the fair value of our financial instruments at December 30, 2017, exclusive of pension plan assets and liabilities (in thousands):

	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Assets:				
Cash equivalents				
Money market funds	$186,393	$—	$ —	$186,393
Available-for-sale securities				
Corporate debt securities	$—	$ 173,821	$ —	$173,821
Non-US government securities	—	11,761	—	11,761
Certificates of deposit	—	500	—	500
Agency discount notes	—	457	—	457
	$—	$ 186,539	$ —	$186,539
Liabilities:				
Other accrued liabilities				
Contingent consideration	$—	$—	$ 671	$671

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

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

Contingent consideration

The following summarizes the fair value of the liability for contingent consideration at December 30, 2017:

	Maximum Value if Milestones Achieved (in thousands)	Estimated Discount Rate (%)	Fair Value (in thousands)
Tranche B - 30 month earn out period	$ 5,000	7.7 %	$ 671

The valuation of contingent consideration was initially based on a weighted-average discounted cash flow model. The fair value is reviewed and estimated on a quarterly basis based on the probability of achieving defined milestones and current interest rates. Significant changes in any of the unobservable inputs used in the fair value measurement of contingent consideration could result in a significantly lower or higher fair value. An increase or decrease in the probability of achieving certain milestones within the earn out period would be accompanied by a directionally similar change in the fair value of the recorded liability. A change in discount rate would be accompanied by a directionally opposite change in fair value. Changes in the fair value of the recorded liability are reported in research and development expense in the consolidated condensed statements of income. In the first quarter of the current fiscal year, changes in the probability of achieving certain milestones associated with Tranche B of the earn out were determined following a review of product shipment forecasts within the earn out period. The revised estimates reduced the fair value of the liability as of December 30, 2017 as shown in the table below. The final amount of the liability will be determined at the end of the earn-out period early in the fourth quarter of the current fiscal year and necessary adjustments will be made at that time.

	Nine Months Ended December 30, 2017

	(in thousands)
Beginning balance	$ 4,695
Adjustment to estimates (research and development expense)	(4,049)
Fair value charge recognized in earnings (research and development expense)	25
Ending balance	$ 671

5. Accounts Receivable, net

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

	December 30, 2017	March 25, 2017
Gross accounts receivable	$218,063	$120,408
Allowance for doubtful accounts	(444)	(434)
Accounts receivable, net	$217,619	$119,974

The increase in accounts receivable in the third quarter of the current fiscal year is due to the timing of sales and seasonality compared to the fourth quarter of fiscal year 2017.

6. Inventories

Inventories are comprised of the following (in thousands):

	December 30, 2017	March 25, 2017
Work in process	$102,670	$83,332
Finished goods	90,297	84,563
	$192,967	$167,895

7. Revolving Credit Facilities

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

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

As of December 30, 2017, the Company had no amounts outstanding under the Amended Facility and was in compliance with all covenants under the Amended Credit Agreement.

8. Pension Plan

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

The Company elected to make a contribution of £1.5 million based on the latest triennial actuarial valuation in the first quarter of the current fiscal year. As of December 30, 2017, the Scheme is in a net funded position (included within “Other assets” in the consolidated condensed balance sheet).

9. Income Taxes

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

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

	Three Months Ended		Nine Months Ended	
	December 30, 2017	December 24, 2016	December 30, 2017	December 24, 2016
Income before income taxes	$104,740	$145,792	$243,112	$270,134
Provision for income taxes	$70,961	$23,751	$93,121	$43,983
Effective tax rate	67.7 %	16.3 %	38.3 %	16.3 %

Our income tax expense was $71.0 million and $23.8 million for the third quarter of fiscal year 2018 and 2017, respectively, resulting in effective tax rates of 67.7% and 16.3% for the third quarter of fiscal year 2018 and 2017, respectively. Our income tax expense was $93.1 million and $44.0 million for the first nine months of fiscal year 2018 and 2017, respectively, resulting in effective tax rates of 38.3% and 16.3% for the first nine months of fiscal year 2018 and 2017, respectively. Our effective tax rate for the third quarter and first nine months of fiscal year 2018 was higher than the federal statutory rate primarily due to the impact of the legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act") enacted in the current quarter and described below, partially offset by income earned in certain foreign jurisdictions that is taxed below the federal statutory rate and excess tax benefits from stock-based compensation. Our effective tax rate for the third quarter and first nine months of fiscal year 2017 was below the federal statutory rate primarily due to income earned in certain foreign jurisdictions taxed below the federal statutory rate, excess tax benefits from stock-based compensation, and the U.S. R&D tax credit.

The Tax Act was enacted on December 22, 2017. The Tax Act reduces the U.S. federal corporate income tax rate from 35.0% to 21.0%, restricts the deductibility of certain business expenses, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax-deferred and creates new taxes on certain foreign sourced earnings, among other provisions. The reduction in the U.S. federal corporate income tax rate is effective January 1, 2018. The rate change is administratively effective at the beginning of our fiscal year 2018, resulting in a blended U.S. federal corporate income tax rate of 31.6% for the annual period. This reduction in the statutory U.S. tax rate, when coupled with changes in the deductibility of certain business expenses that are also effective in fiscal year 2018, resulted in an immaterial change to the estimated annual effective tax rate as of the third quarter of fiscal year 2018. The discrete tax effects of the enactment of the Tax Act are described below.

As of the end of the third quarter of fiscal year 2018, we have not completed our accounting for, and have made a reasonable estimate of, the income tax effects of the Tax Act. We remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21.0%. We are still analyzing certain aspects of the Tax Act and refining our calculations, which could potentially affect the measurement of these balances or give rise to new deferred tax amounts. The provisional amount recorded as a discrete component of income tax expense in the current quarter related to the remeasurement of our deferred tax balances was $6.1 million of tax expense. In addition, we recorded a provisional amount of $51.8 million for our one-time transition tax liability as a discrete component of income tax expense. The one-time transition tax is based on our total post-1986 earnings and profits (E&P) that were previously deferred from U.S. income taxes, and is based in part on the amount of those earnings held in cash and other specified assets. The amount may change when we finalize the calculation of E&P and finalize the amounts held in cash or other specified assets on the applicable measurement date.

The Company records unrecognized tax benefits for the estimated risk associated with tax positions taken on tax returns. At December 30, 2017, the Company had unrecognized tax benefits of $36.2 million, all of which would impact the effective tax rate if recognized. The Company recorded a gross decrease of $2.3 million due to the lapse of the statute of limitations in the first quarter of fiscal year 2018 applicable to a tax deduction claimed on a prior year tax return, as well as gross increases to its current year unrecognized tax benefits of $2.2 million, $2.8 million, and $2.6 million for the first, second and third quarters of fiscal year 2018, respectively. The Company believes it is reasonably possible that the gross unrecognized tax benefits could decrease by approximately $1.1 million in the next 12 months due to the lapse of the statute of limitations applicable to a tax position taken on a prior year tax return. The Company's total unrecognized tax benefits are classified as "Other long-term liabilities" in the consolidated condensed balance sheets.

The Company recognizes interest and penalties related to unrecognized tax benefits in the provision for income taxes. As of December 30, 2017, the balance of accrued interest and penalties, net of tax, was $0.8 million.

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

10. Net Income Per Share

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

The following table details the calculation of basic and diluted earnings per share for the three and nine months ended December 30, 2017 and December 24, 2016 (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	December 30, 2017	December 24, 2016	December 30, 2017	December 24, 2016
Numerator:				
Net income	$33,779	$122,041	$149,991	$226,151
Denominator:				
Weighted average shares outstanding	63,453	63,837	63,655	63,025
Effect of dilutive securities	2,104	2,911	2,722	3,353
Weighted average diluted shares	65,557	66,748	66,377	66,378
Basic earnings per share	$0.53	$1.91	$2.36	$3.59
Diluted earnings per share	$0.52	$1.83	$2.26	$3.41

The weighted outstanding shares excluded from our diluted calculation for the three and nine months ended December 30, 2017 were 824 thousand and 273 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 24, 2016 were 157 thousand and 208 thousand, respectively, as the shares were anti-dilutive.

11. Legal Matters

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

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

12. Stockholders' Equity

Common Stock

The Company issued a net 0.6 million and 1.0 million shares of common stock during the three and nine month periods ending December 30, 2017, respectively, primarily pursuant to the Company's 2006 Stock Incentive Plan. The Company issued a net 0.9 million and 2.0 million shares of common stock during the three and nine month periods ending December 24, 2016, respectively, primarily pursuant to the Company's 2006 Stock Incentive Plan.

Share Repurchase Program

Since inception, $139.8 million of the Company's common stock has been repurchased under the Company's 2015 $200 million share repurchase program, leaving $60.2 million available for repurchase under this plan as of December 30, 2017. During the three and nine months ended December 30, 2017, respectively, the Company repurchased 0.4 million shares of its common stock, for $20.0 million, at an average cost of $55.01 per share and 2.0 million shares of its common stock, for $115.6 million, at an average cost of $58.89 per share. All of these shares were repurchased in the open market and were funded from existing cash. All shares of our common stock that were repurchased were retired as of December 30, 2017.

13. Segment Information

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

The Company operates and tracks its results in one reportable segment, but reports revenue performance in two product lines, Portable Audio and Non-Portable Audio and Other. Our CEO receives and uses enterprise-wide financial information to assess financial performance and allocate resources, rather than detailed information at a product line level. Additionally, our product lines have similar characteristics and customers. They share support functions such as sales, public relations, supply chain management, various research and development and engineering support, in addition to the general and administrative functions of human resources, legal, finance and information technology. Therefore, there is no complete, discrete financial information maintained for these product lines. Revenues from our product lines are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	December 30, 2017	December 24, 2016	December 30, 2017	December 24, 2016
Portable Audio Products	$438,650	$483,712	$1,101,099	$1,083,190
Non-Portable Audio and Other Products	44,091	39,317	127,914	127,886
	$482,741	$523,029	$1,229,013	$1,211,076

14. Subsequent Event

In January 2018, the Board of Directors authorized the repurchase of up to an additional $200 million of the Company's common stock, in addition to the $60.2 million remaining from the Board's previous share repurchase authorization in October 2015, described above in Note 12.

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

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations and certain information incorporated herein by reference contain forward-looking statements within the meaning of the Private Securities Litigation

Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are based on current expectations, estimates, forecasts and projections and the beliefs and assumptions of our management. In some cases, forward-looking statements are identified by words such as "expect," "anticipate," "target," "project," "believe," "goals," "estimates," "intend," variations of these types of words and similar expressions which are intended to identify these forward-looking statements. In addition, any statements that refer to our plans, expectations, strategies or other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned that these forward-looking statements are predictions and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update publicly any forward-looking statement for any reason.

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

Overview

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

Critical Accounting Policies

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

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

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (ASC Topic 606). The purpose of this ASU is to converge revenue recognition requirements per U.S. GAAP and International Financial Reporting Standards ("IFRS"). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date after public comment supported a proposal to delay the effective date of this ASU to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. The Company is currently in the process of reviewing our customers' contracts in respect of performance obligation identification and satisfaction, pricing, warranties, and return rights, among other considerations. The process is substantially complete and the Company currently expects no material modifications to its financial statements upon adoption of this ASU. The standard may be adopted by full retrospective method, which applies retrospectively to each prior period presented, or by modified retrospective method with the cumulative effect adjustment recognized in beginning retained earnings as of the date of adoption. We anticipate using the modified retrospective adoption method.

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

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

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. This ASU relates to income tax consequences of non-inventory intercompany asset transfers. This ASU is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted, as of the beginning of an annual reporting period. The guidance requires companies to apply a modified retrospective approach with a cumulative catch-up adjustment to beginning retained earnings in the period of adoption. The Company early adopted this ASU in the first quarter of fiscal year 2018 with a $0.7 million impact to beginning retained earnings.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The update states that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business, and should be treated as an asset acquisition instead. This ASU is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted under specific circumstances, including in an interim period, with prospective application. The Company adopted this ASU and applied the related guidance to an asset acquisition in the first quarter of fiscal year 2018.

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

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

Results of Operations

Our fiscal year is the 52- or 53-week period ending on the last Saturday in March. Fiscal year 2018 included 53 weeks, with the extra week included in the third quarter. Fiscal year 2017 was a 52-week fiscal year.

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

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	Three Months Ended		Nine Months Ended	
	December 30, 2017	December 24, 2016	December 30, 2017	December 24, 2016
Net sales	100 %	100 %	100 %	100 %
Gross margin	49 %	49 %	49 %	49 %
Research and development	20 %	15 %	22 %	19 %
Selling, general and administrative	8 %	6 %	7 %	8 %
Income from operations	21 %	28 %	20 %	22 %
Interest income	0 %	0 %	0 %	0 %
Interest expense	0 %	0 %	0 %	0 %
Other expense	0 %	0 %	0 %	0 %
Income before income taxes	21 %	28 %	20 %	22 %
Provision for income taxes	14 %	5 %	8 %	3 %
Net income	7 %	23 %	12 %	19 %

Net Sales

Net sales for the third quarter of fiscal year 2018 decreased $40.3 million, or 8 percent, to $482.7 million from $523.0 million in the third quarter of fiscal year 2017. Net sales from our portable audio products decreased $45.1 million, primarily due to a lower average selling price ("ASP") for components at a key Android original equipment manufacturer ("OEM") and ASP reductions on certain other portable audio products. Non-portable audio and other product sales increased $4.8 million for the quarter versus the comparable period in the prior fiscal year.

Net sales for the first nine months of fiscal year 2018 increased $17.9 million, or 1 percent, to $1.23 billion from $1.21 billion for the first nine months of fiscal year 2017. Net sales from our portable audio products increased $17.9 million, or 2 percent, primarily due to increases in volumes on a number of portable audio components, partially offset by the ASP reductions, described above. Non-portable audio and other product sales were relatively flat for the first nine months versus the comparable period in the prior fiscal year.

Sales outside of the Americas, including sales to U.S.-based customers that manufacture products overseas, either through foreign subsidiaries or third parties principally located in Asia, were approximately 98 percent of net sales for each of the third quarters of fiscal year 2018 and 2017 and 97 percent for each of the first nine months of fiscal year 2018 and 2017. Our sales are denominated primarily in U.S. dollars. No foreign currency hedging contracts were entered into in the first nine months of fiscal year 2018 or 2017.

Since the components we produce are largely proprietary, we consider our end customer to be the entity specifying the use of our component in their design. These end customers may purchase our products directly from us, from an external sales representative or distributor, or through a third-party manufacturer contracted to produce their designs. For each of the third quarters of fiscal years 2018 and 2017, our ten largest end customers represented approximately 94 percent of our net sales. For the first nine months of fiscal years 2018 and 2017, our ten largest customers represented approximately 93 percent and 92 percent of our net sales, respectively.

We had one end customer, Apple Inc., that purchased through multiple contract manufacturers and represented approximately 86 percent and 85 percent of the Company’s total net sales for the third quarter of fiscal years 2018 and 2017, respectively. This same customer represented approximately 82 percent and 79 percent of the Company's total net sales for the first nine months of fiscal years 2018 and 2017.

No other end customer or distributor represented more than 10 percent of net sales for the three and nine months ending December 30, 2017 and December 24, 2016.

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

Gross Margin

Gross margin was 48.7 percent in the third quarter of fiscal year 2018, down from 48.8 percent in the third quarter of fiscal year 2017. The decrease was primarily driven by higher scrap and reserve expense in the current fiscal quarter, mostly offset by favorable mix.

Gross margin was 49.5 percent for the first nine months of fiscal year 2018 up from 49.0 percent for the first nine months of fiscal year 2017. The increase was primarily due to supply chain efficiencies.

Research and Development Expense

Research and development expense for the third quarter of fiscal year 2018 was $97.0 million, an increase of $20.9 million, or 27 percent, from $76.1 million in the third quarter of fiscal year 2017. The primary drivers for this increase were related to salary and employee-related expenses, including facilities-related costs, following a 14 percent increase in headcount, the absence of a sales tax refund that occurred in the third quarter of fiscal year 2017, increased amortization of acquisition-related intangibles and higher product development costs, including tape-outs .

Research and development expense for the first nine months of fiscal year 2018 was $270.9 million, an increase of $45.2 million, or 20 percent, from $225.7 million for the first nine months of fiscal year 2017. Driving the increase were higher salary and employee-related expenses following increases in headcount. The increased headcount also drove corresponding facilities-related costs higher for the period. Amortization of acquisition-related intangibles, product development expenses, including tape-outs, and the absence of a sales tax refund that occurred in the third quarter of fiscal year 2017 also contributed to the increase.

Selling, General and Administrative Expense

Selling, general and administrative expense for the third quarter of fiscal year 2018 was $34.6 million, an increase of $1.7 million, or 5 percent, from $32.9 million in the third quarter of fiscal year 2017, primarily due to increased employment expenses for the period due to a 6 percent increase in headcount from third quarter fiscal year 2017 to third quarter fiscal year 2018.

Selling, general and administrative expense for the first nine months of fiscal year 2018 was $95.5 million, representing no material change from $95.5 million for the first nine months of fiscal year 2017.

Interest Income

The Company reported interest income of $1.2 million and $3.1 million for the three and nine months ended December 30, 2017, respectively, and $0.4 million and $1.0 million for the three and nine months ended December 24, 2016, respectively. Interest income increased in the current fiscal year due to higher average cash, cash equivalents and marketable securities balances for the periods presented.

Interest Expense

The Company reported interest expense of $0.3 million and $0.9 million for the three and nine months ended December 30, 2017, respectively, and $0.8 million and $3.0 million for the three and nine months ended December 24, 2016, respectively. Interest expense decreased in the current fiscal year due to the repayment of the revolving credit facility described in Note 7.

Other Income (Expense)

For each of the three and nine months ended December 30, 2017, the Company reported $0.3 million in other income and $0.8 million in other expense, and less than $0.1 million and $0.2 million, respectively, in other expense for the three and nine months ended December 24, 2016, primarily related to remeasurement on foreign currency denominated monetary assets and liabilities.

Income Taxes

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

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

	Three Months Ended		Nine Months Ended	
	December 30, 2017	December 24, 2016	December 30, 2017	December 24, 2016
Income before income taxes	$104,740	$145,792	$243,112	$270,134
Provision for income taxes	$70,961	$23,751	$93,121	$43,983
Effective tax rate	67.7 %	16.3 %	38.3 %	16.3 %

Our income tax expense was $71.0 million and $23.8 million for the third quarter of fiscal year 2018 and 2017, respectively, resulting in effective tax rates of 67.7% and 16.3% for the third quarter of fiscal year 2018 and 2017, respectively. Our income tax expense was $93.1 million and $44.0 million for the first nine months of fiscal year 2018 and 2017, respectively, resulting in effective tax rates of 38.3% and 16.3% for the first nine months of fiscal year 2018 and 2017, respectively. Our effective tax rate for the third quarter and first nine months of fiscal year 2018 was higher than the federal statutory rate primarily due to the impact of the Tax Act enacted in the current quarter, offset in part by income earned in certain foreign jurisdictions that is taxed below the federal statutory rate and excess tax benefits from stock-based compensation. Our effective tax rate for the third quarter and first nine months of fiscal year 2017 was below the federal statutory rate primarily due to income earned in certain foreign jurisdictions taxed below the federal statutory rate, excess tax benefits from stock-based compensation, and the U.S. R&D tax credit.

The Tax Act was enacted on December 22, 2017. The Tax Act reduces the U.S. federal corporate income tax rate from 35.0% to 21.0%, restricts the deductibility of certain business expenses, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax-deferred and creates new taxes on certain foreign sourced earnings, among other provisions. The reduction in the U.S. federal corporate income tax rate is effective January 1, 2018. The rate change is administratively effective at the beginning of our fiscal year 2018, resulting in a blended U.S. federal corporate income tax rate of 31.6% for the annual period. This reduction in the statutory U.S. tax rate, when coupled with changes in the deductibility of certain business expenses that are also effective in fiscal year 2018, resulted in an immaterial change to the estimated annual effective tax rate as of the third quarter of fiscal year 2018. In addition, we recorded $57.9 million of income tax expense in the third quarter of fiscal year 2018 as a provisional estimate of the discrete tax effects of the Tax Act. See Note 9, Income Taxes.

Liquidity and Capital Resources

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

Cash generated by operating activities is net income adjusted for certain non-cash items and changes in working capital. Cash flow from operations was $213.0 million for the first nine months of fiscal year 2018 as compared to $244.9 million generated from operations for the corresponding period of fiscal year 2017. The cash flow from operations during the current period of fiscal year 2018 was related to the cash components of our net income, offset by a $42.4 million unfavorable change in working capital, primarily as a result of increases in accounts receivable and inventories, partially offset by increases in accounts payable and taxes payable. The cash flow from operations during the corresponding period of fiscal year 2017 was related to the cash components of our net income, partially offset by a $61.1 million unfavorable change to working capital, primarily as a result of increases in accounts receivable and inventories, partially offset by an increase in accounts payable.

Net cash used in investing activities was $149.2 million during the first nine months of fiscal year 2018 as compared to $26.4 million used in investing activities during the first nine months of fiscal year 2017. The cash used in investing activities in the current period is primarily related to net purchases of marketable securities of $87.3 million, and capital expenditures and technology investments of $41.7 million. In addition, the Company purchased certain tangible and intangible assets for $20.2 million as part of a technology acquisition. The cash used in investing activities in the corresponding period in fiscal year 2017 was primarily related to net maturities and sales of marketable securities of $8.9 million, and capital expenditures and technology investments of $35.3 million.

Net cash used in financing activities was $188.3 million during the first nine months of fiscal year 2018. The cash used during the first nine months of fiscal year 2018 was primarily associated with stock repurchases of $115.6 million and $60.0 million in payments against the long-term revolver. The cash used in financing activities was $76.9 million for the first nine months of fiscal year 2017. The use of cash was primarily associated with $60.4 million in payments against the Company's Amended Facility described below, stock repurchases during the period of $15.4 million, and debt issuance costs of $2.2 million.

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

Revolving Credit Facilities

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

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

As of December 30, 2017, the Company had no amounts outstanding under the Amended Facility and was in compliance with all covenants under the Amended Credit Agreement.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks associated with interest rates on our debt securities, currency movements on non-U.S. dollar denominated assets and liabilities, and the effect of market factors on the value of our marketable securities. We assess these risks on a regular basis and have established policies that are designed to protect against the adverse effects of these and other potential exposures. For a description of our market risks, see "Part II – Item 7A – Quantitative and Qualitative Disclosures about Market Risk" in our fiscal year 2017 Annual Report on Form 10-K filed with the Commission on May 24, 2017. There have been no significant changes to our exposure to market risks since we filed our fiscal year 2017 Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

As required by Rule 13a-15(b) of the Exchange Act, we have evaluated, under the supervision and with the participation of our management, including our chief executive officer (CEO) and chief financial officer (CFO), the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this Form 10-Q. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Commission rules and forms and (ii) accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.
Based upon the evaluation, our management, including our CEO and CFO, has concluded that our disclosure controls and procedures were effective as of December 30, 2017.
Changes in control over financial reporting

There has been no change in the Company's internal control over financial reporting during the quarter ended December 30, 2017, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS
In evaluating all forward-looking statements, you should specifically consider risk factors that may cause actual results to vary from those contained in the forward-looking statements. Various risk factors associated with our business are included in our Annual Report on Form 10-K for the year ended March 25, 2017, as filed with the Commission on May 24, 2017, and available at www.sec.gov. Other than as set forth below, there have been no material changes to those risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended March 25, 2017.

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

While we generate sales from a broad base of customers worldwide, the loss of any of our key customers, or a significant reduction in sales or selling prices to any key customer, or reductions in selling prices made to retain key customer relationships, would significantly reduce our revenue, margins and earnings and adversely affect our business. For the first nine months of fiscal years 2018 and 2017, our ten largest customers represented approximately 93 percent and 92 percent, respectively, of our net sales. We had one end customer, Apple Inc. that purchased through multiple contract manufacturers and represented approximately 82 percent and 79 percent of the Company's total net sales for the first nine months of fiscal years 2018 and 2017, respectively.

We had no distributors that represented more than 10 percent of our sales for the nine month period ending December 30, 2017, or December 24, 2016. No other end customer or distributor represented more than 10 percent of net sales for the nine month period ending December 30, 2017, or December 24, 2016.

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

- most of our customers can stop incorporating our products into their own products with limited notice to us and suffer little or no penalty;
- our agreements with our customers typically do not require them to purchase a minimum quantity of our products;
- many of our customers have pre-existing or concurrent relationships with our current or potential competitors that may affect the customers' decisions to purchase our products;

- our customers face intense competition from other manufacturers that do not use our products; and
- our customers regularly evaluate alternative sources of supply in order to diversify their supplier base, which increases their negotiating leverage with us and their ability to obtain components from alternative sources.

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

Our key customer relationships often require us to develop new products that may involve significant technological challenges. Our customers frequently place considerable pressure on us to meet their tight development schedules. In addition, we may from time to time enter into customer agreements providing for exclusivity periods during which we may only sell specified products or technologies to that customer. Accordingly, we may have to devote a substantial amount of resources to strategic relationships, which could detract from or delay our completion of other important development projects or the development of next generation products and technologies.

The final impacts of the Tax Cuts and Jobs Act could be materially different from our current estimates.

The legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”) was enacted on December 22, 2017. The Tax Act reduces the U.S. federal corporate income tax rate from 35% to 21%, restricts the deductibility of certain business expenses, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously deferred from U.S. tax and creates new U.S. taxes on certain foreign sourced earnings, among other provisions. In the third quarter of fiscal year 2018, which is the period of enactment, we have made a reasonable estimate of the effects of the Tax Act and recognized a provisional amount that is included as a component of income tax expense from continuing operations. This provisional amount is based on management's current knowledge and assumptions. Final amounts could be materially different from current estimates based on further analysis of the tax law changes or on additional guidance from Treasury, the IRS, the Commission, or the FASB.

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

The following table provides information about purchases of equity securities that are registered by us pursuant to Section 12 of the Exchange Act during the three months ended December 30, 2017 (in thousands, except per share amounts):

Monthly Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (1)
September 24, 2017 - October 21, 2017	—	$—	—	$ —
October 22, 2017 - November 18, 2017	182	55.07	182	70,227
November 19, 2017 - December 30, 2017	182	54.96	182	60,227

Total	364	$ 55.01	364	$ 60,227

(1) The Company currently has one active share repurchase program: the $200 million share repurchase program authorized by the Board of Directors in October 2015. The repurchases are to be funded from existing cash and intended to be effected from time to time in accordance with applicable securities laws through the open market or in privately negotiated transactions. The timing of the repurchases and the actual amount purchased depend on a variety of factors including general market and economic conditions and other corporate considerations. The program does not have an expiration date, does not obligate the Company to repurchase any particular amount of common stock, and may be modified or suspended at any time at the Company's discretion. The Company repurchased 0.4 million shares of its common stock for $20.0 million during the third quarter of fiscal year 2018. All of these shares were repurchased in the open market and were funded from existing cash. All shares of our common stock that were repurchased were retired as of December 30, 2017.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES
None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION
None.

ITEM 6. EXHIBITS

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

3.1	Certificate of Incorporation of Registrant, filed with the Delaware Secretary of State on August 26, 1998. (1)
3.2	Amended and Restated Bylaws of Registrant. (2)
31.1	Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

(1) Incorporated by reference from Registrant's Report on Form 10-K for the fiscal year ended March 31, 2001, filed with the Commission on June 22, 2001 (Registration No. 000-17795).

(2) Incorporated by reference from Registrant's Report on Form 8-K filed with the Commission on September 20, 2013 (Registration No. 000-17795).

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

SIGNATURES

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

CIRRUS LOGIC, INC.

Date: February 5, 2018 /s/ Thurman K. Case

Thurman K. Case

Vice President, Chief Financial Officer and Principal Accounting Officer

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