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 September 29, 2013

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 193**

For the transition period from to

Commission File No. 0-14225

EXAR CORPORATION
(Exact Name of Registrant as specified in its charter)

Delaware	**94-1741481**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

48720 Kato Road, Fremont, CA 94538
(Address of principal executive offices, Zip Code)

(510) 668-7000
(Registrant's telephone number, including area code)

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 Regulations 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 the 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 ☐ (Do not check if a smaller reporting company) 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 outstanding of the Registrant's Common Stock was 47,509,410 as of November 5, 2013.

EXAR CORPORATION AND SUBSIDIARIES

INDEX TO

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 29, 2013

		Page
	PART I – FINANCIAL INFORMATION	
Item 1.	Financial Statements (Unaudited)	3
	Condensed Consolidated Balance Sheets	3
	Condensed Consolidated Statements of Operations	4
	Condensed Consolidated Statements of Comprehensive Income (Loss)	5
	Condensed Consolidated Statements of Cash Flows	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	34
Item 4.	Controls and Procedures	35
	PART II – OTHER INFORMATION	
Item 1.	Legal Proceedings	35
Item 1A.	Risk Factors	36
Item 6.	Exhibits	51
	Signatures	52
	Index to Exhibits	53

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EXAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)
(Unaudited)

	September 29, 2013	March 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,051	$ 14,718
Short-term marketable securities	174,862	190,587
Accounts receivable (net of allowances of $1,124 and $944)	17,236	12,614
Accounts receivable, related party (net of allowances of $798 and $346)	3,223	3,374
Inventories	19,841	19,430
Assets held for sale	13,083	—
Other current assets	3,474	3,177
Total current assets	241,770	243,900
Property, plant and equipment, net	9,153	24,100
Goodwill	29,573	10,356
Intangible assets, net	30,054	13,338
Other non-current assets	1,482	1,474
Total assets	$ 312,032	$ 293,168
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 12,782	$ 9,455
Accrued compensation and related benefits	3,770	3,624
Deferred income and allowances on sales to distributors	2,150	2,399
Deferred income and allowances on sales to related party distributor	9,056	9,475
Other current liabilities	14,375	15,215
Total current liabilities	42,133	40,168
Long-term lease financing obligations	456	1,342
Other non-current obligations	12,550	11,204
Total liabilities	55,139	52,714
Commitments and contingencies (Notes 13, 14 and 15)		
Stockholders' equity:		
Common stock, $.0001 par value; 100,000,000 shares authorized; 47,505,596 and 46,607,246 shares outstanding	5	5
Additional paid-in capital	510,038	749,426
Accumulated other comprehensive loss	(970)	(526)
Treasury stock at cost, 0 and 19,924,369 shares	—	(248,983)
Accumulated deficit	(252,180)	(259,468)
Total stockholders' equity	256,893	240,454
Total liabilities and stockholders' equity	$ 312,032	$ 293,168

See Accompanying Notes to Condensed Consolidated Financial Statements.

EXAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	September 29, 2013	**September 30, 2012**	**September 29, 2013**	**September 30, 2012**
Sales:				
Net sales	$ 24,978	$ 21,528	$ 48,836	$ 40,975
Net sales, related party	9,040	9,094	17,809	18,898
Total net sales	34,018	30,622	66,645	59,873
Cost of sales:				
Cost of sales	12,371	12,054	24,183	22,924
Cost of sales, related party	4,156	4,380	8,063	8,892
Amortization of purchased intangible assets and inventory step-up	2,098	858	3,448	1,777
Warranty Reserve	1,440	—	1,440	—
Restructuring charges and exit costs	24	—	105	81
Total cost of sales	20,089	17,292	37,239	33,674
Gross profit	13,929	13,330	29,406	26,199
Operating expenses:				
Research and development	7,136	5,773	13,334	11,222
Selling, general and administrative	9,520	7,639	17,321	15,421
Restructuring charges and exit costs	384	291	1,315	1,095
Net change in fair value of contingent consideration	(2,495)	—	(2,495)	—
Total operating expenses	14,545	13,703	29,475	27,738
Loss from operations	(616)	(373)	(69)	(1,539)
Other income and expense, net:				
Interest income and other, net	372	674	659	1,320
Interest expense	(41)	(38)	(78)	(72)
Total other income and expense, net	331	636	581	1,248
Income (Loss) before income taxes	(285)	263	512	(291)
(Benefit) Provision for income taxes	(6,767)	—	(6,776)	22
Net income (loss)	$ 6,482	$ 263	$ 7,288	$ (313)
Net income (loss) per share:				
Basic	$ 0.14	$ 0.01	$ 0.15	$ (0.01)
Diluted	$ 0.13	$ 0.01	$ 0.15	$ (0.01)
Shares used in the computation of net income (loss) per share:				
Basic	47,496	45,720	47,151	45,554
Diluted	49,150	46,046	48,647	45,554

See Accompanying Notes to Condensed Consolidated Financial Statements.

EXAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Net income (loss)	$ 6,482	$ 263	$ 7,288	$ (313)
Changes in market value of investments, net of tax:				
Changes in unrealized gain (loss) on investments	166	532	(418)	263
Reclassification adjustment for net realized gains (losses)	33	(115)	(26)	(153)
Net change in market value of investments	199	417	(444)	110
Comprehensive income (loss)	$ 6,681	$ 680	$ 6,844	$ (203)

See Accompanying Notes to Condensed Consolidated Financial Statements.

EXAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended	
	September 29, 2013	**September 30, 2012**
Cash flows from operating activities:		
Net income (loss)	$ 7,288	$ (313)
Reconciliation of net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	6,171	5,909
Gain on sale of intangible asset	—	(223)
Stock-based compensation expense	4,710	1,521
Release of deferred tax valuation allowance	(6,770)	—
Net change in fair value of contingent consideration	(2,495)	—
Changes in operating assets and liabilities, net of effect of acquisition:		
Accounts receivable and accounts receivable, related party	(4,230)	(5,366)
Inventories	1,345	2,319
Other current and non-current assets	(427)	98
Accounts payable	2,807	1,168
Accrued compensation and related benefits	77	(818)
Deferred income and allowance on sales to distributors and related party distributor	(668)	(640)
Other current and non-current liabilities	(3,256)	(3,612)
Net cash provided by operating activities	4,552	43
Cash flows from investing activities:		
Purchases of property, plant and equipment and intellectual property, net	(749)	(1,106)
Purchases of short-term marketable securities	(116,589)	(81,477)
Proceeds from maturities of short-term marketable securities	18,589	25,885
Proceeds from sales of short-term marketable securities	113,618	55,710
Acquisition of Cadeka Microcircuits, LLC, net of cash acquired	(23,111)	—
Other disposal activities	125	110
Net cash used in investing activities	(8,117)	(878)
Cash flows from financing activities:		
Proceeds from issuance of common stock	2,897	3,174
Purchase of stock for withholding taxes on vested restricted stock	(1,018)	—
Repurchase of common stock	(1,999)	—
Payments of lease financing obligations	(982)	(630)
Net cash provided by (used in) financing activities	(1,102)	2,544
Net increase (decrease) in cash and cash equivalents	(4,667)	1,709
Cash and cash equivalents at the beginning of period	14,718	8,714
Cash and cash equivalents at the end of period	$ 10,051	$ 10,423
Supplemental disclosure of non-cash investing activities:		
Issuance of common stock in connection with Cadeka acquisition	$ 5,005	$ —

See Accompanying Notes to Condensed Consolidated Financial Statements.

EXAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

Description of Business— Exar Corporation was incorporated in California in 1971 and reincorporated in Delaware in 1991. Exar Corporation and its subsidiaries ("Exar" or "we") is a fabless semiconductor company that designs, develops and markets high performance analog mixed-signal integrated circuits and advanced sub-system solutions for the Networking & Storage, Industrial & Embedded, and Communications Infrastructure markets. Exar's product portfolio includes power management and connectivity components, high-performance analog and mixed-signal products, communications products and data compression and storage solutions.

Basis of Presentation and Use of Management Estimates—The accompanying condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2013 as filed with the SEC. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, that we believe are necessary for a fair statement of Exar's financial position as of September 29, 2013 and results of operations for the three and six months ended September 29, 2013 and September 30, 2012, respectively. These condensed consolidated financial statements are not necessarily indicative of the results to be expected for the entire year.

The financial statements include management's estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of sales and expenses during the reporting periods. Actual results could differ from those estimates, and material effects on operating results and financial position may result.

Our fiscal years consist of 52 or 53 weeks. In a 52-week year, each fiscal quarter consists of 13 weeks. Fiscal years 2014 and 2013 consisted of 52 weeks. The second quarter of fiscal years 2014 and 2013 both consisted of 13 weeks.

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2013, the Financial Accounting Standards Board ("FASB") issued amended standards that provided explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward or a tax credit carryforward exists. Under the amended standards, the unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward or a tax credit carryforward. These amended standard updates will be effective for our interim period beginning after December 15, 2013 and applied prospectively with early adoption permitted. We are currently evaluating the impact of this guidance on the presentation of our financial positions, results of operations and cash flows.

In February 2013, the FASB issued amended standards to improve the reporting of reclassifications out of accumulated other comprehensive income by requiring an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. These amended standards are effective for interim and annual reporting periods beginning after December 15, 2012. The adoption of this guidance did not have any material impact on our financial position, results of operations or cash flows.

In July 2012, the FASB issued amended standards to simplify how entities test indefinite-lived intangible assets for impairment which improve consistency in impairment testing requirements among long-lived asset categories. These amended standards permit an assessment of qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. For assets in which this assessment concludes it is more likely than not that the fair value is more than its carrying value, these amended standards eliminate the requirement to perform quantitative impairment testing as outlined in the previously issued standards. These amended standards are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The adoption of this guidance did not have a material impact on our financial position, results of operations or cash flows.

NOTE 3. BUSINESS COMBINATIONS

We periodically evaluate potential strategic acquisitions to broaden our product offering and build upon our existing library of intellectual property, human capital and engineering talent in order to expand our capabilities in the areas in which we operate or to acquire complementary businesses.

We account for each business combination by applying the acquisition method, which requires (1) identifying the acquiree; (2) determining the acquisition date; (3) recognizing and measuring the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest we have in the acquiree at their acquisition date fair value; and (4) recognizing and measuring goodwill or a gain from a bargain purchase.

Assets acquired and liabilities assumed in a business combination that arise from contingencies are recognized at fair value on the acquisition date if fair value can be determined during the measurement period. If fair value cannot be determined, we typically account for the acquired contingencies using existing guidance for a reasonable estimate.

To establish fair value, we measure the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants. The measurement assumes the highest and best use of the asset by the market participants that would maximize the value of the asset or the group of assets within which the asset would be used at the measurement date, even if the intended use of the asset is different.

Acquisition related costs, including finder's fees, advisory, legal, accounting, valuation and other professional or consulting fees are accounted for as expenses in the periods in which the costs are incurred and the services are received, with the exception that the costs to issue debt or equity securities are recognized in accordance with other applicable GAAP.

Acquisition of Cadeka

On July 5, 2013, we completed the acquisition of substantially all of the assets of Cadeka Technologies (Cayman) Holding Ltd., a privately held company organized under the laws of the Cayman Islands and all the outstanding stock of the subsidiaries of Cadeka, including the equity of its wholly owned subsidiary Cadeka Microcircuits, LLC, a Colorado limited liability company ("Cadeka"). With locations in Loveland, Colorado, Shenzhen and Wuxi, China, Cadeka designs, develops and markets high precision analog integrated circuits for use in industrial and high reliability applications. Cadeka's results of operations and estimated fair value of assets acquired and liabilities assumed were included in our condensed consolidated financial statements beginning July 6, 2013. The pro forma effects of the portion of the Cadeka operations assumed through the transaction on our results of operations during fiscal years 2013 and 2012 were considered immaterial.

Consideration

The purchase consideration includes approximately 454,000 shares of our common stock issued to the shareholders of Cadeka (valued at $5.2 million) and a cash payment of $25.0 million (less an amount of $1.0 million, inclusive of 15,000 shares, held back temporarily to satisfy potential indemnity claims). An additional purchase price consideration earn-out (up to $5.0 million) may be earned over the next two fiscal years contingent upon achieving certain revenue targets, and may be paid in the form of cash, stock or both. The $5.2 million worth of shares issued at closing were valued on the date of the acquisition, and the fair value of contingent earn-outs was derived using a probability-based approach on various revenue assumptions and discounted to a present value. Final determination of the earn-out liability can range from zero to $5.0 million based on the actual achievement of the revenue targets. Fair value of contingent consideration is subject to periodic revaluation and any change in the fair value of contingent consideration from the events after the acquisition date will be recognized in earnings of the period in which the fair value changes. The probability–based approach used to fair value contingent consideration is based on significant inputs not observed in the market and thus represents a Level 3 measurement. The significant unobservable inputs include projected revenues, percentage probability of occurrence and a discount rate to present value the future payments. The summary of the preliminary purchase consideration is as follows (in thousands):

		Amount
Cash	$	25,000
Equity instruments		5,177
Estimated fair value of earn-out payments		4,660
Total consideration paid	$	34,837

In accordance with ASC 805, Business Combinations, the acquisition of Cadeka was recorded as a purchase business acquisition since Cadeka was considered a business. Under the purchase method of accounting, the fair value of the consideration was allocated to net assets acquired at their fair values. The fair value of purchased identifiable intangible assets and contingent earn-outs were derived from model-based valuations from significant unobservable inputs ("Level 3 inputs") determined by management. The fair value of purchased identifiable intangible assets was determined using discounted cash flow models from operating projections prepared by management using an internal rate of return ranging from 15% to 23%. The fair value of the contingent earn-out was a probability-based approach that includes significant unobservable inputs. *See Note 4 —"Fair Value,"* for additional details of the inputs used to determine the fair value of the contingent earn-out. The excess of the preliminary fair value of consideration paid over the preliminary fair values of net assets acquired and identifiable intangible assets resulted in recognition of goodwill of approximately $12.4 million prior to considering the impact on deferred tax assets and liabilities. The goodwill results largely of expected synergies from combining the operations of Cadeka with that of Exar and is not expected to be tax deductible. After considering the impact of deductible and taxable temporary tax differences on the acquired business, a deferred tax liability of $6.8 million was established primarily related to identified intangible asset basis differences, which resulted in a total goodwill amount recorded as part of the acquisition of $19.2 million. Additionally, in accordance with ASC 805, Business Combinations, we also evaluated the impact of the acquisition on Exar's valuation allowance, the impact of which is recorded outside of purchase accounting, resulting in a release of the valuation allowance and an income tax benefit of $6.8 million.

Preliminary Purchase Price Allocation

The allocation of the total preliminary purchase price to Cadeka's tangible and identifiable intangible assets and liabilities assumed was based on their estimated fair values at the date of acquisition.

The preliminary fair value allocated to each of the major classes of tangible and identifiable intangible assets acquired and liabilities assumed in the Cadeka acquisition was as follows (in thousands):

		Amount
Identifiable tangible assets		
Cash	$	1,055
Accounts Receivable		241
Inventories		1,756
Property, plant and equipment		231
Other assets		3
Accounts payable and accruals		(7,400)
Other short-term liabilities		(520)
Long-term liabilities		(126)
Total identifiable tangible assets, net		(4,760)
Identifiable intangible assets		20,380
Total identifiable assets, net		15,620
Goodwill		19,217
Fair value of total consideration transferred	$	34,837

The following table sets forth the components of identifiable intangible assets acquired in connection with the Cadeka acquisition (in thousands):

		Fair Value
Developed technologies	$	15,720
In-process research and development		2,280
Customer relations		2,170
Trade name		210
Total identifiable intangible assets	$	20,380

In valuing specific components of the acquisition, that includes deferred taxes, and intangibles required us to make estimates that may be adjusted in the future, if new information is obtained about circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of those assets and liabilities as of that date. Thus, the purchase price allocation is considered preliminary and dependent upon the finalization of the valuation of assets acquired and liabilities assumed, including income tax effects. Final determination of these estimates could result in an adjustment to the preliminary purchase price allocation, with an offsetting adjustment to goodwill.

Acquisition Related Costs

Acquisition related costs, or deal costs, relating to Cadeka are included in the selling, general and administrative line on the condensed consolidated statement of operations for the six months ended September 29, 2013, and were approximately $0.3 million.

Acquisition of Altior

On March 22, 2013, we completed the acquisition of substantially all of the assets of Altior Inc. (“Altior”), a developer of data management solutions in Eatontown, New Jersey. Altior’s results of operations and estimated fair value of assets acquired and liabilities assumed were included in our consolidated financial statements beginning March 23, 2013. The pro forma effects of the portion of the Altior operations assumed through the transaction on our results of operations during fiscal years 2013 and 2012 were considered immaterial.

Consideration

The purchase consideration includes approximately 358,000 of our shares issued to the shareholders of Altior, a cash payment of $1.0 million (of which $0.25 million was held back temporarily to satisfy potential indemnity claims), and additional purchase price consideration earn-outs which may be paid in the form of cash, shares or a combination thereof (not to exceed $20.0 million in aggregate) payable over the next three fiscal years contingent upon achieving certain revenue targets. The $3.7 million worth of shares issued as consideration were valued on the date of the acquisition, and the fair value of contingent earn-outs was derived using a probability-based approach on various revenue assumptions. Final determination of the earn-out liability can range from zero to $20.0 million based on the actual achievement of the revenue targets. Fair value of contingent consideration is subject to periodic revaluation and any change in the fair value of contingent consideration from the events after the acquisition date, will be recognized in earnings of the period in which the fair value changes. The probability–based approach used to fair value contingent consideration is based on significant inputs not observed in the market and thus represents a Level 3 measurement. The significant unobservable inputs include projected revenues, percentage probability of occurrence and a discount rate to present value the future payments. The summary of the purchase consideration is as follows (in thousands):

	Amount
Cash	$ 1,000
Equity instruments	3,740
Estimated fair value of earn-out payments	10,138
Total consideration paid	$ 14,878

In accordance with ASC 805, Business Combinations, the acquisition of Altior was recorded as a purchase business acquisition since Altior was considered a business. Under the purchase method of accounting, the fair value of the consideration was allocated to assets and liabilities assumed at their fair values. The fair value of purchased identifiable intangible assets and contingent earn-outs were derived from model-based valuations from significant unobservable inputs (“Level 3 inputs”) determined by management. The fair value of purchased identifiable intangible assets was determined using discounted cash flow models from operating projections prepared by management using an internal rate of return ranging from 12% to 19%. The fair value of the contingent earn-outs was a probability-based approach that includes significant unobservable inputs. *See Note 4 —“Fair Value,”* for additional details of the inputs used to determine the fair value of the contingent earn-out. The excess of the fair value of consideration paid over the fair values of net assets and liabilities acquired and identifiable intangible assets resulted in recognition of goodwill of approximately $7.2 million. The goodwill consists largely of expected synergies from combining the operations of Altior with that of Exar and is deductible over 15 years for tax purposes.

Purchase Price Allocation

The allocation of the purchase price to Altior’s tangible and identifiable intangible assets and liabilities assumed was based on their estimated fair values at the date of acquisition.

The fair value allocated to each of the major classes of tangible and identifiable intangible assets acquired and liabilities assumed in the Altior acquisition was as follows (in thousands):

	Amount
Identifiable tangible assets	
Inventories	$ 126
Property, plant and equipment	140
Other assets	36
Accounts payable and accruals	(24)
Other short-term liabilities	(51)
Long-term liabilities	(61)
Total identifiable tangible assets, net	166
Identifiable intangible assets – existing technology	7,540
Total identifiable assets, net	7,706
Goodwill	7,172
Fair value of total consideration transferred	$ 14,878

Acquisition Related Costs

Acquisition related costs, or deal costs, relating to Altior are included in the selling, general and administrative line on the consolidated statement of operations for fiscal year 2013, were approximately $48,000.

NOTE 4. FAIR VALUE

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. GAAP describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value as follows:

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.

Our cash and investment instruments are classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

The fair value of contingent consideration arising from the acquisitions of Altior and Cadeka is classified within Level 3 of the fair value hierarchy since it is based on a probability-based approach that includes significant unobservable inputs.

There were no transfers between Level 1, Level 2, and Level 3 during the fiscal quarter ended September 29, 2013.

Our investment assets, measured at fair value on a recurring basis, as of the dates indicated below were as follows (in thousands, except for percentages):

	September 29, 2013				
	Level 1	Level 2	Level 3	Total	
Assets:					
Money market funds	$ 2,428	$ —	$ —	$ 2,428	1%
U.S. government and agency securities	19,333	28,067	—	47,400	27%
State and local government securities	—	2,832	—	2,832	2%
Corporate bonds and securities	3	85,387	—	85,390	48%
Asset-backed securities	—	28,490	—	28,490	16%
Mortgage-backed securities	—	10,750	—	10,750	6%
Total investment assets	$ 21,764	$ 155,526	$ —	$ 177,290	100%
Liabilities:					
Acquisition-related contingent consideration – Altior	$ —	$ —	$ 7,643	$ 7,643	62%
Acquisition-related contingent consideration – Cadeka	$ —	$ —	$ 4,660	$ 4,660	38%
Total liabilities	$ —	$ —	$ 12,303	$ 12,303	100%

	March 31, 2013				
	Level 1	Level 2	Level 3	Total	
Assets:					
Money market funds	$ 5,042	$ —	$ —	$ 5,042	3%
U.S. government and agency securities	22,460	19,261	—	41,721	21%
State and local government securities	—	2,935	—	2,935	1%
Corporate bonds and securities	274	91,955	—	92,229	47%
Asset-backed securities	—	30,966	—	30,966	16%
Mortgage-backed securities	—	22,736	—	22,736	12%
Total investment assets	$ 27,776	$ 167,853	$ —	$ 195,629	100%
Liabilities:					
Acquisition-related contingent consideration – Altior	$ —	$ —	$ 10,138	$ 10,138	100%

Our cash, cash equivalents and short-term marketable securities as of the dates indicated below were as follows (in thousands):

	September 29, 2013	March 31, 2013
Cash and cash equivalents		
Cash at financial institutions	$ 7,623	$ 9,676
Cash equivalents		
Money market funds	2,428	5,042
Total cash and cash equivalents	$ 10,051	$ 14,718
Available-for-sale securities		
U.S. government and agency securities	$ 47,400	$ 41,721
State and local government securities	2,832	2,935
Corporate bonds and securities	85,390	92,229
Asset-backed securities	28,490	30,966
Mortgage-backed securities	10,750	22,736
Total short-term marketable securities	$ 174,862	$ 190,587

Our marketable securities include U.S. government and agency securities, state and local government securities, corporate bonds and securities, and asset-backed and mortgage-backed securities. We classify investments as available-for-sale at the time of purchase and re-evaluate such designation as of each balance sheet date. We amortize premiums and accrete discounts to interest income over the life of the investment. Our available-for-sale securities, which we intend to sell as necessary to meet our liquidity requirements, are classified as cash equivalents if the maturity date is 90 days or less from the date of purchase and as short-term marketable securities if the maturity date is greater than 90 days from the date of purchase.

All marketable securities are reported at fair value based on the estimated or quoted market prices as of each balance sheet date, with unrealized gains or losses, net of tax effect, recorded in the condensed consolidated statements of other comprehensive income except those unrealized losses that are deemed to be other than temporary which are reflected in the impairment charges on investments line item on the condensed consolidated statements of operations.

The fair value of contingent consideration was determined based on a probability-based approach which includes projected revenues, percentage probability of occurrence and discount rate to present value payments. A significant increase (decrease) in the projected revenue, discount rate or probability of occurrence in isolation could result in a significantly higher (lower) fair value measurement.

The following table presents quantitative information about the inputs and valuation methodologies used for our fair value measurements classified in Level 3 of the fair value hierarchy as of September 29, 2013.

	Fair Value (in thousands)	Valuation Technique	Significant Unobservable Input
As of September 29, 2013			
Acquisition-related contingent consideration – Altior	$ 7,643	Combination of income and marketable approach	Revenue and Probability of Achievement
Acquisition-related contingent consideration – Cadeka	$ 4,660	Combination of income and marketable approach	Revenue and Probability of Achievement

We calculate the fair value of the contingent consideration on a quarterly basis based on additional information as it becomes available. Any change in the fair value adjustment is recorded in the earnings of that period.

The change in the fair value of our Altior purchase consideration liability is as follows:

	September 29, 2013
As of March 31, 2013	$ 10,138
Less: Adjustment to purchase consideration	(2,495)
As of September 29, 2013	$ 7,643

We have focused our resources on developing and marketing our coprocessor products with the Altior software technology incorporated. These products, when compared to the Altior legacy FPGA-based products, will earn credit under the asset purchase agreement at a lower rate, resulting in a lower probability of meeting certain near-term earn-out targets. As a result, the fair value of the contingent consideration for Altior acquisition was reduced by $2.5 million and credited to operating expense for the three months ended September 29, 2013.

Realized gains (losses) on the sale of marketable securities are determined by the specific identification method and are reflected in the interest income and other net, line item on the condensed consolidated statements of operations.

Our net realized gains (losses) on marketable securities for the periods indicated below were as follows (in thousands):

	Three Months Ended		Six Months Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Gross realized gains	$ 164	$ 144	$ 382	$ 384
Gross realized losses	(131)	(259)	(408)	(537)
Net realized income (losses)	$ 33	$ (115)	$ (26)	$ (153)

The following table summarizes our investments in marketable securities as of the dates indicated below (in thousands):

	September 29, 2013			
	Amortized Cost	Unrealized Gross Gains (1)	Unrealized Gross Losses (1)	Fair Value
Money market funds	$ 2,428	$ —	$ —	$ 2,428
U.S. government and agency securities	47,402	15	(17)	47,400
State and local government securities	2,837	1	(6)	2,832
Corporate bonds and securities	85,413	58	(81)	85,390
Asset-backed securities	28,528	14	(52)	28,490
Mortgage-backed securities	10,797	21	(68)	10,750
Total investments	$ 177,405	$ 109	$ (224)	$ 177,290

	March 31, 2013			
	Amortized Cost	Unrealized Gross Gains (1)	Unrealized Gross Losses (1)	Fair Value
Money market funds	$ 5,042	$ —	$ —	$ 5,042
U.S. government and agency securities	41,694	27	—	41,721
State and local government securities	2,927	10	(2)	2,935
Corporate bonds and securities	92,059	215	(45)	92,229
Asset-backed securities	30,932	61	(27)	30,966
Mortgage-backed securities	22,646	194	(104)	22,736
Total investments	$ 195,300	$ 507	$ (178)	$ 195,629

(1) Gross of tax impact

Our asset-backed securities are comprised primarily of premium tranches of vehicle loans and credit card receivables, while our mortgage-backed securities are primarily from Federal agencies. We do not own auction rate securities nor do we own securities that are classified as subprime. As of September 29, 2013, we have sufficient liquidity and do not intend to sell these securities to fund normal operations or realize any significant losses in the short term; however, these securities are available for use, if needed, for current operations.

Management determines the appropriate classification of cash equivalents or short-term marketable securities at the time of purchase and reevaluates such classification as of each balance sheet date. The investments are adjusted for amortization of premiums and accretion of discounts to maturity and such accretion/amortization, which is immaterial for all periods presented, is included in the interest income and other, net line in the condensed consolidated statements of operations. Cash equivalents and short-term marketable securities are reported at fair value with the related unrealized gains and losses included in the accumulated other comprehensive losses line in the condensed consolidated balance sheets. As of September 29, 2013, there was approximately $0.9 million of unrealized losses, net of tax from our Level 1 and Level 2 investments.

We periodically review our investments in unrealized loss positions for other-than-temporary impairments. This evaluation includes, but is not limited to, significant quantitative and qualitative assessments and estimates regarding credit ratings, collateralized support, the length of time and significance of a security's loss position, our intent not to sell the security, and whether it is more likely than not that we will not have to sell the security before recovery of its cost basis. For the three and six months ended September 29, 2013 and September 30, 2012, respectively, there were no investments identified with other than temporary declines in value.

The amortized cost and estimated fair value of cash equivalents and marketable securities classified as available-for-sale by expected maturity as of the dates indicated below were as follows (in thousands):

	September 29, 2013		March 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Less than 1 year	$ 57,231	$ 57,215	$ 61,011	$ 61,029
Due in 1 to 5 years	120,174	120,075	134,289	134,600
Total	$ 177,405	$ 177,290	$ 195,300	$ 195,629

The following table summarizes the gross unrealized losses and fair values of our investments in an unrealized loss position as of the dates indicated below, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position (in thousands):

	September 29, 2013					
	Less than 12 months		12 months or greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government and agency securities	$ 21,759	$ (17)	$ —	$ —	$ 21,759	$ (17)
State and local government securities	1,515	(5)	315	(1)	1,830	(6)
Corporate bonds and securities	48,977	(80)	758	(1)	49,735	(81)
Asset-backed securities	15,817	(44)	2,143	(8)	17,960	(52)
Mortgage-backed securities	249	(2)	7,161	(66)	7,410	(68)
Total	$ 88,317	$ (148)	$ 10,377	$ (76)	$ 98,694	$ (224)

	March 31, 2013					
	Less than 12 months		12 months or greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
State and local government securities	$ —	$ —	$ 404	$ (2)	$ 404	$ (2)
Corporate bonds and securities	29,609	(42)	497	(3)	30,106	(45)
Asset-backed securities	10,008	(17)	1,241	(10)	11,249	(27)
Mortgage-backed securities	2,911	(39)	3,263	(65)	6,174	(104)
Total	$ 42,528	$ (98)	$ 5,405	$ (80)	$ 47,933	$ (178)

NOTE 5. GOODWILL AND INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination. We evaluate goodwill for impairment on an annual basis or whenever events and changes in circumstances suggest that the carrying amount may not be recoverable. We conduct our annual impairment analysis in the fourth quarter of each fiscal year. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. Estimations and assumptions regarding the number of reporting units, future performances, results of our operations and comparability of our market capitalization and net book value will be used. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired and a second step is performed to measure the amount of impairment loss. Because we have one reporting unit, we utilize an entity-wide approach to assess goodwill for impairment. As of September 29, 2013, no events or changes in circumstances suggest that the carrying amount for goodwill may not be recoverable and therefore we did not perform an interim goodwill impairment analysis.

The changes in the carrying amount of goodwill for fiscal years 2014 and 2013 were as follows (in thousands):

	September 29, 2013	March 31, 2013
Beginning balance	$ 10,356	$ 3,184
Goodwill additions	19,217	7,172
Ending balance	$ 29,573	$ 10,356

The goodwill additions during the six months ended September 29, 2013 consist of $19.2 million residual allocation from the Cadeka acquisition purchase price accounting. Goodwill additions during the fiscal year ended March 31, 2013 consisted of $7.2 million residual allocation from the Altior acquisition purchase price accounting.

Intangible Assets

Our purchased intangible assets as of the dates indicated below were as follows (in thousands):

	September 29, 2013			March 31, 2013		
	Carrying Amount	Accumulated Amortization	Net Carrying Amount	Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:						
Existing technology	$ 58,588	$ (33,914)	$ 24,674	$ 42,858	$ (30,668)	$ 12,190
Patents/Core technology	3,459	(3,280)	179	3,459	(3,182)	277
Distributor relationships	1,264	(1,260)	4	1,264	(1,219)	45
Customer relationships	5,075	(2,351)	2,724	2,905	(2,079)	826
Tradenames	210	(17)	193	—	—	—
Total intangible assets subject to amortization	68,596	(40,822)	27,774	50,486	(37,148)	13,338
In-process research and development	2,280	—	2,280	—	—	—
Total	$ 70,876	$ (40,822)	$ 30,054	$ 50,486	$ (37,148)	$ 13,338

Long-lived assets are amortized on a straight-line basis over their respective estimated useful lives. Existing technology is amortized over two to nine years. Patents/core technology is amortized over five to six years. Distributor relationships are amortized over six years. Customer relationships are amortized over five to seven years. Tradenames are amortized over three years. We evaluate the remaining useful life of our long-lived assets that are being amortized each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization. If the estimate of an intangible asset's remaining useful life is changed, the remaining carrying amount of the long-lived asset is amortized prospectively over the remaining useful life. Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If an indicator of impairment exists, we compare the carrying value of long-lived assets to our projection of future undiscounted cash flows attributable to such assets and, in the event that the carrying value exceeds the future undiscounted cash flows, we record an impairment charge equal to the excess of the carrying value over the asset's fair value. Although the assumptions used in projecting future revenues and gross margins are consistent with those used in our annual strategic planning process, intangible asset impairment charges might be required in future periods if our assumptions are not achieved.

As of September 29, 2013, there were no indicators that required us to perform an intangible assets impairment review.

The aggregate amortization expenses for our purchased intangible assets for the periods indicated below were as follows (in thousands):

	Three Months Ended		Six Months Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Amortization expense	$ 2,130	$ 1,048	$ 3,674	$ 2,161

The total future amortization expenses for our purchased intangible assets are summarized below (in thousands):

Amortization Expense (by fiscal year)	
2014 (6 months remaining)	$ 3,982
2015	6,039
2016	4,863
2017	3,449
2018	3,255
2019 and thereafter	6,186
Total future amortization	$ 27,774

NOTE 6. LONG-TERM INVESTMENT

Our long-term investment consists of our investment in Skypoint Telecom Fund II (US), L.P. ("Skypoint Fund"). Skypoint Fund is a venture capital fund that invested primarily in private companies in the telecommunications and/or networking industries. We account for this non-marketable equity investment under the cost method. We periodically review and determine whether the investment is other-than-temporarily impaired, in which case the investment is written down to its impaired value.

As of the dates indicated below, our long-term investment balance, which is included in the "Other non-current assets" line item on the condensed consolidated balance sheets, consisted of the following (in thousands):

	September 29, 2013	March 31, 2013
Beginning balance	$ 1,288	$ 1,273
Contributions	—	15
Ending balance	$ 1,288	$ 1,288

The carrying amount of $1.3 million as of September 29, 2013 reflects the net of the capital contributions, capital distributions and cumulative impairment charges. We have made $4.8 million in capital contributions to Skypoint Fund since we became a limited partner in July 2001. During the first quarter of fiscal year 2013, we contributed $15,000 to the fund. The Partnership is currently in the dissolution phase. As of September 29, 2013, we do not have any further capital commitments.

Impairment

We evaluate our long-term investment for impairment whenever events and changes in circumstances suggest that the carrying amount may not be recoverable. We conduct our annual impairment analysis in the fourth quarter of each fiscal year by comparing the carrying amount to the fair value of the underlying investments. If the carrying amount exceeds its fair value, long term-investment is considered impaired and a second step is performed to measure the amount of impairment loss. We analyzed the fair value of the underlying investments of Skypoint Fund and as a result, no impairment was recorded during the second fiscal quarter of 2014.

NOTE 7. RELATED PARTY TRANSACTIONS

Affiliates of Future Electronics Inc. ("Future"), Alonim Investments Inc. and two of its affiliates (collectively "Alonim"), own approximately 7.6 million shares, or approximately 16%, of our outstanding common stock as of September 29, 2013. As such, Alonim is our largest stockholder.

Our sales to Future are made under a distribution agreement that provides protection against price reduction for its inventory of our products and other sales allowances that are also provided to certain of our other distributor partners. We recognize revenue on sales to Future when Future sells the products to its end customers. Future has historically accounted for a significant portion of our net sales.

Related party contributions to our total net sales for the periods indicated below were as follows:

	Three Months Ended		Six Months Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Future	27%	30%	27%	32%

Related party receivables to our net accounts receivables were as follows as of the dates indicated below:

	September 29, 2013	March 31, 2013
Future	16%	21%

Related party expenses for marketing promotional materials reimbursed were not significant for the three and six months ended September 29, 2013 and September 30, 2012, respectively.

We rent our Loveland, Colorado office from an entity, which is partially-owned by one of the founders of Cadeka, who is now one of our employees. We have recorded $69,000 in related party rent expense for both the three and six months ended September 29, 2013.

NOTE 8. RESTRUCTURING CHARGES AND EXIT COSTS

2014 Restructuring Charges and Exit Costs

During the three and six months ended September 29, 2013, we incurred restructuring charges and exit costs of $0.4 million and $1.4 million, respectively. The charges include $1.2 million of severance benefits, net of adjustments in other costs and $0.2 million of costs related to efforts to sell and market our campus in Fremont, California.

2013 Restructuring Charges and Exit Costs

In the fourth quarter of fiscal year 2013, we recorded $0.3 million restructuring charges and exit costs and released a $0.5 million liability related to Industrial Research Assistance Program with Canadian governmental agency. In the third, second and first quarters of fiscal year 2013, we recorded restructuring charges and exit costs of $0.6 million, $0.3 million and $0.9 million, respectively. Of the total restructuring charges and exit costs recorded in fiscal year 2013, $0.3 million was reflected in cost of sales and $1.3 million was reflected in operating expenses within our consolidated statements of operations.

Our restructuring liabilities were included in the other current liabilities and other non-current obligations lines within our condensed consolidated balance sheets. The following table summarizes the activities affecting the liabilities as of the dates indicated below (in thousands):

	September 29, 2013				
	Beginning balance	Additions/ adjustments	Non-cash charges	Payments	Ending balance
Lease termination costs and others	$ 2,860	$ (76)	$ (16)	$ (183)	$ 2,585
Severance	426	1,270	—	(1,122)	574
Sale / Leaseback of Exar campus	—	226	—	(188)	38
Balance at September 29, 2013	$ 3,286	$ 1,420	$ (16)	$ (1,493)	$ 3,197

	March 31, 2013				
	Beginning balance	Additions/ adjustments	Non-cash charges	Payments	Ending balance
Lease termination costs and others	$ 5,235	$ 6	$ (56)	$ (2,325)	$ 2,860
Severance	2,806	1,548	—	(3,928)	426
Balance at March 31, 2013	$ 8,041	$ 1,554	$ (56)	$ (6,253)	$ 3,286

NOTE 9. BALANCE SHEET DETAIL

Our inventories consisted of the following as of the dates indicated below (in thousands):

	September 29, 2013	March 31, 2013
Work-in-process and raw materials	$ 11,556	$ 9,981
Finished goods	8,285	9,449
Total inventories	$ 19,841	$ 19,430

Our property, plant and equipment consisted of the following as of the dates indicated below (in thousands):

	September 29, 2013	March 31, 2013
Land	$ —	$ 6,660
Building	807	16,224
Machinery and equipment	39,628	42,258
Software and licenses	17,350	17,566
Property, plant and equipment, total	57,785	82,708
Accumulated depreciation and amortization	(48,632)	(58,608)
Total property, plant and equipment, net	$ 9,153	$ 24,100

Our other current liabilities consisted of the following as of the dates indicated below (in thousands):

	September 29, 2013	March 31, 2013
Fair value of earn-out liability – short-term	$ 3,780	$ 2,599
Short-term lease financing obligations	3,266	3,189
Accrued restructuring charges and exit costs	2,019	2,020
Accrued manufacturing expenses, royalties and licenses	1,761	2,370
Purchase consideration holdback	1,256	250
Accrued legal and professional services	949	746
Accrued sales and marketing expenses	521	576
Accrual for dispute resolution	—	2,727
Other	823	738
Total other current liabilities	$ 14,375	$ 15,215

Our other non-current obligations consisted of the following (in thousands) as of the dates indicated:

	September 29, 2013	March 31, 2013
Fair value of earn-out liability – long–term	$ 8,523	$ 7,539
Long-term taxes payable	2,215	2,225
Accrued restructuring charges and exit costs	1,178	1,266
Other	634	174
Total other non-current obligations	$ 12,550	$ 11,204

NOTE 10. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share excludes dilution and is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the applicable period. Diluted earnings per share reflects the potential dilution that would occur if outstanding stock options or warrants to purchase common stock were exercised for common stock, using the treasury stock method, and the common stock underlying outstanding restricted stock units (“RSUs”) was issued.

The following table summarizes our net income (loss) per share for the periods indicated below (in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Net income (loss)	$ 6,482	$ 263	$ 7,288	$ (313)
Shares used in computation of net income (loss) per share:				
Basic	47,496	45,720	47,151	45,554
Effect of options and awards	1,654	326	1,496	—
Diluted	49,150	46,046	48,647	45,554
Net income (loss) per share				
Basic	$ 0.14	$ 0.01	$ 0.15	$ (0.01)
Diluted	$ 0.13	$ 0.01	$ 0.15	$ (0.01)

All outstanding stock options and restricted stock units (“RSUs”) are potentially dilutive securities. In the three and six months ended September 29, 2013, approximately 1.1 million shares and 0.8 million shares were excluded from the computation of diluted net income per share because they were determined to be anti-dilutive.

In the three months ended September 30, 2012, approximately 4.1 million shares were excluded from the computation of diluted net income per share because they were determined to be anti-dilutive. For the six months ended September 30, 2012, all shares attributable to outstanding options and RSUs were excluded from the computation of diluted net loss per share, as inclusion of such shares would have had an anti-dilutive effect.

NOTE 11. COMMON STOCK REPURCHASES

From time to time, we acquire outstanding common stock in the open market to partially offset dilution from our equity award programs, to increase our return on our invested capital and to bring our cash to a more appropriate level for our organization.

On August 28, 2007, we announced the approval of a share repurchase plan under which we were authorized to repurchase up to $100.0 million of our common stock.

On July 9, 2013, we announced the approval of a share repurchase program under which we were authorized to repurchase an additional $50.0 million of our common stock. The repurchase program does not have a termination date, and may be modified, extended or terminated at any time. We intend to retire all shares repurchased under the stock repurchase plan. The purchase price for the repurchased shares of Exar is reflected as a reduction of common stock and additional paid-in capital. We may continue to repurchase our common stock under the repurchase plan, which would reduce our cash, cash equivalents and/or short-term marketable securities available to fund future operations and to meet other liquidity requirements.

As of September 29, 2013, we had repurchased shares valued at $90.2 million under the August 2007 repurchase. During the three and six months ended September 29, 2013, we repurchased $2.0 million of our common stock under the July 2013 repurchase program. The repurchased shares were retired immediately after the quarter end. The remaining authorized amount for the stock repurchase under the repurchase programs is $59.8 million.

Stock repurchase activities during the six months ended September 29, 2013 were indicated below (in thousands, except per share amounts):

	Total number of Shares Purchased	Average Price Paid Per Share (or Unit)	Amount Paid for Purchase
Balances, March 31, 2013	9,564	$ 9.22	$ 88,189
Repurchases for six months	153	$ 13.07	1,999
Balances, September 29, 2013	9,717	$ 9.28	$ 90,188

Note: The average price paid per share is based on the total price paid by Exar, which includes applicable broker fees.

NOTE 12. STOCK-BASED COMPENSATION

Employee Stock Participation Plan ("ESPP")

Our ESPP permits employees to purchase common stock through payroll deductions at a purchase price that is equal to 95% of our common stock price on the last trading day of each three-calendar-month offering period. Our ESPP is non-compensatory.

The following table summarizes our ESPP transactions during the fiscal periods presented (in thousands, except per share amounts):

	As of September 29, 2013	Six Months Ended September 29, 2013	
	Shares of Common Stock	Shares of Common Stock	Weighted Average Price per Share
Authorized to issue	4,500		
Reserved for future issuance	1,386		
Issued		6	$ 10.34

Equity Incentive Plans

We currently have two equity incentive plans, in which shares are available for future issuance, the Exar Corporation 2006 Equity Incentive Plan ("2006 Plan") and the Sipex Corporation ("Sipex") 2006 Equity Incentive Plan ("Sipex Plan"), the latter of which was assumed in connection with the August 2007 acquisition of Sipex.

The 2006 Plan authorizes the issuance of stock options, stock appreciation rights, restricted stock, stock bonuses and other forms of awards granted or denominated in common stock or units of common stock, as well as cash bonus awards. RSUs granted under the 2006 Plan are counted against authorized shares available for future issuance on a basis of two shares for every RSU issued. The 2006 Plan allows for performance-based vesting and partial vesting based upon the level of performance. Grants under the Sipex Plan are only available to former Sipex's employees or employees of Exar hired after the Sipex acquisition. At our annual meeting on September 15, 2010, our stockholders approved an amendment to the 2006 Plan to increase the aggregate share limit under the 2006 Plan by an additional 5.5 million shares to 8.3 million shares. At September 29, 2013, there were 2.5 million shares available for future grant under all our equity incentive plans.

Stock Option Activities

Our stock option transactions during the six months ended September 29, 2013 were indicated below:

	Outstanding	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)	In-the-money Options Vested and Exercisable (in thousands)
Balance at March 31, 2013	6,212,333	$ 7.48	5.04	$ 19,199	$ 1,481
Granted	1,053,500	12.02			
Exercised	(394,025)	7.16			
Forfeited	(485,360)	7.85			
Cancelled	(6,034)	9.21			
Balance at September 29, 2013	6,380,414	$ 8.23	5.10	$ 32,414	$ 1,974
Vested and expected to vest, September 29, 2013	5,761,712	$ 8.12	5.01	$ 29,891	
Vested and exercisable, September 29, 2013	2,060,228	$ 7.39	3.63	$ 12,204	

The aggregate intrinsic values in the table above represent the total pre-tax intrinsic value, which is based on the closing price of our common stock of $13.30 and $10.50 as September 29, 2013 and March 31, 2013, respectively. These are the values which would have been received by option holders if all option holders exercised their options on that date.

In January 2012, we granted 480,000 performance-based stock options to our Chief Executive Officer, President and Director (“CEO”). The options are scheduled to vest in four equal annual installments at the end of fiscal years 2013 through 2016 if certain predetermined financial measures are met. If the financial measures are not met, each installment will be rolled over to the subsequent fiscal year for vesting except for the last installment. If the financial measures are not met for two consecutive years, the options will be forfeited except for the last installment which will be forfeited at the end of fiscal year 2016. We recorded $65,000 and $130,000 of compensation expense for these options in the three and six months ended September 29, 2013, respectively. We recorded $65,000 and $130,000 of compensation expense for these options in the three and six months ended September 30, 2012, respectively.

Options exercised for the periods indicated below were as follows (in thousands):

	Three Months Ended		Six Months Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Intrinsic value of options exercised	$ 1,072	$ 177	$ 1,894	$ 575

RSU Activities

Our RSU transactions during the six months ended September 29, 2013 are summarized as follows:

	Shares		Weighted Average Grant-Date Fair Value	Weighted Average Remaining Contractual Term (in years)		Aggregate Intrinsic Value (in thousands)
Unvested at March 31, 2013	732,204	$	7.73	1.72	$	7,688
Granted	404,495		11.55			
Issued and released	(305,738)		9.49			
Cancelled	(30,666)		9.47			
Unvested at September 29, 2013	800,295	$	8.92	1.78	$	10,644
Vested and expected to vest, September 29, 2013	666,299			1.71	$	8,862

The aggregate intrinsic value of RSUs represents the closing price per share of our stock at the end of the periods presented, multiplied by the number of unvested RSUs or the number of vested and expected to vest RSUs, as applicable, at the end of each period.

For RSUs, stock-based compensation expense was calculated based on our stock price on the date of grant, multiplied by the number of RSUs granted. The grant date fair value of RSUs less estimated forfeitures was recognized on a straight-line basis, over the vesting period.

In March 2012, we granted 300,000 performance-based RSUs to our CEO. The RSUs are scheduled to start vesting in three equal annual installments at the end of fiscal year 2013 through 2015 with three year vesting periods if certain predetermined financial measures are met. If the financial measures are not met, each installment will be forfeited at the end of its respective fiscal year. In the three and six months ended September 29, 2013, we recorded $470,000 and $522,000, respectively, of compensation expense for these awards. In the three and six months ended September 30, 2012, we recorded $112,000 and $224,000, respectively, of compensation expense for these awards.

During fiscal year 2014, we granted 50,000 performance-based RSUs to certain executives. The RSUs are scheduled to start vesting in the three equal annual installments at the end of fiscal 2014 through 2017 with three year vesting periods if certain predetermined financial measures are met. In addition, the annual vesting requires continued service through each of the vesting dates. During the three and six months ended September 29, 2013, we recorded $148,000 of compensation expense for these awards, respectively.

In August 2013, we announced the Fiscal Year 2014 Executive Management Incentive Program ("2014 Incentive Program"). Under this program, each participant's award is denominated in stock and subject to achievement of certain financial performance goals and the participant's annual Management by Objective goals. In the three and six months ended September 29, 2013, we recorded $1.3 million of stock compensation expense related to the 2014 Incentive Program, respectively.

Stock-Based Compensation Expense

The following table summarizes stock-based compensation expense related to stock options and RSUs during the fiscal periods presented (in thousands):

	Three Months Ended				Six Months Ended			
		September 29, 2013		September 30, 2012		September 29, 2013		September 30, 2012
Cost of sales	$	212	$	129	$	354	$	114
Research and development		689		236		829		109
Selling, general and administrative		2,722		982		3,527		1,298
Total Stock-based compensation expense	$	3,623	$	1,347	$	4,710	$	1,521

The amount of stock-based compensation cost capitalized in inventory was immaterial for all periods presented.

Unrecognized Stock-Based Compensation Expense

The following table summarizes unrecognized stock-based compensation expense related to stock options and RSUs for the period indicated below as follows:

	September 29, 2013	
	Amount (in thousands)	Weighted Average Expected Remaining Period (in years)
Options	$ 8,244	2.8
RSUs	4,981	2.4
Total Stock-based compensation expense	$ 13,225	

Valuation Assumptions

We estimate the fair value of stock options on the date of grant using the Black-Scholes option-pricing model. The assumptions used in calculating the fair value of stock-based compensation represent our estimates, but these estimates involve inherent uncertainties and the application of management's judgment which include the expected term of the stock-based awards, stock price volatility and forfeiture rates. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future.

We used the following weighted average assumptions to calculate the fair values of options granted during the fiscal periods presented:

	Three Months Ended		Six Months Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Expected term of options (years)	4.44	4.50	4.40 – 4.44	4.20 – 4.50
Risk-free interest rate	1.12%	0.5%	0.6% – 1.12%	0.5% – 0.6%
Expected volatility	33%	41%	33% – 35%	41% – 42%
Expected dividend yield	—	—	—	—
Weighted average estimated fair value	$ 3.70	$ 2.68	$ 3.49	$ 2.72

NOTE 13. LEASE FINANCING OBLIGATIONS

We have acquired engineering design tools ("Design Tools") under capital leases. We acquired Design Tools of $0.2 million in July 2013 under a 29-month license, $0.9 million in July 2012 under a three-year license, $4.5 million in December 2011 under a three-year license, $5.8 million in October 2011 under a three-year license, $1.0 million in June 2010 under a three-year license, $1.3 million in December 2009 under a 28-month license, and $1.1 million in July 2009 under a three-year license, all of which were accounted for as capital leases and recorded in the property, plant and equipment, net line item in the condensed consolidated balance sheets. The obligations related to the Design Tools were included in other current liabilities and long-term lease financing obligations in our condensed consolidated balance sheets as of September 29, 2013 and March 31, 2013, respectively. The effective interest rates for the Design Tools range from 2.0% to 7.25%.

Amortization expense related to the Design Tools, which was recorded using the straight-line method over the remaining useful life for the periods indicated below was as follows (in thousands):

	Three Months Ended		Six Months Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Amortization expense	$ 884	$ 946	$ 1,750	$ 1,841

Future minimum lease and sublease income payments for the lease financing obligations as of September 29, 2013 are as follows (in thousands):

Fiscal Years	Design Tools
2014 (6 months remaining)	$ 2,371
2015	1,456
2016	59
2017	10
2018 and thereafter	6
Total minimum lease payments	3,902
Less: amount representing interest	180
Present value of minimum lease payments	3,722
Less: short-term lease financing obligations	3,266
Long-term lease financing obligations	$ 456

Interest expense for the lease financing obligation for the periods indicated below was as follows (in thousands):

	Three Months Ended		Six Months Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Interest expense	$ 39	$ 38	$ 76	$ 72

In the course of our business, we enter into arrangements accounted for as operating leases related to rental of office space. Rent expenses for all operating leases for the periods indicated below were as follows (in thousands):

	Three Months Ended		Six Months Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Rent expense	$ 233	$ 174	$ 429	$ 307

Our future minimum lease payments for the lease operating obligations as of September 29, 2013 are as follows (in thousands):

Fiscal Years	Facilities
2014 (6 months remaining)	$ 395
2015	540
2016	452
2017	141
2018 and thereafter	18
Total minimum lease payments	$ 1,546

NOTE 14. COMMITMENTS AND CONTINGENCIES

In 1986, Micro Power Systems Inc. (“MPSI”), a subsidiary that we acquired in June 1994, identified low-level groundwater contamination at its principal manufacturing site. The area and extent of the contamination appear to have been defined. MPSI previously reached an agreement with a prior tenant to share in the cost of ongoing site investigations and the operation of remedial systems to remove subsurface chemicals and well closure activities. In April 2012, the San Francisco Bay Regional Water Quality Control Board approved our application for low-threat closure and rescinded the previous cleanup order. All monitoring well closure activities on adjacent/neighboring sites have been completed. Discussions with the current property owner regarding access environmental indemnity and tolling agreements, and deed restriction covenants are ongoing. Proposed agreements in this regard have been exchanged, approved and are in the process of being executed by all parties.

Outstanding liabilities for remediation activities, net of payments, consisted of the following as of the dates indicated (in thousands):

	September 29, 2013	March 31, 2013
Liabilities for remediation activities	$ 31	$ 76

In early 2012, we received correspondences from the California Department of Toxic Substance Control ("DTSC") regarding its ongoing investigation of hazardous wastes and hazardous waste constituents at a former regulated treatment facility in San Jose, California. In 1985, MPSI made two separate permitted hazmat deliveries to a licensed and regulated site for treatment. DTSC has requested that former/current property owners and companies, currently in excess of 50, that had hazardous waste treated at the site participate in further site assessment and limited remediation activities. We have entered into various agreements with other named generators, former property owners and DTSC limited to the investigation of the sites' condition and evaluation, and selection of appropriate remedial measures. The designated environmental consulting firm has started the process of finalizing arrangements necessary to commence the agreed facility investigation. Given that this matter is in the early stages of investigation and discussions are ongoing, we are unable to ascertain our exposure, if any.

In a letter dated March 27, 2012, Exar was notified by the Alameda County Water District ("ACWD") of the recent detection of volatile organic compounds at a site adjacent to a facility that was previously owned and occupied by Sipex. The letter was also addressed to prior and current property owners and tenants (collectively "Property Owners"). ACWD requested that the property owners carry out further site investigation activities to determine if the detected compounds are emanating from the site or simply flowing under it. In June 2012, the Property Owners filed with ACWD a report of its investigation/characterization activities and analytical data obtained. Accumulated data suggests that compounds of concern in groundwater appear to be from an offsite source. ACWD is now investigating alternative upgradient sites. Given that this matter is in the early stages of investigation and discussions are ongoing, we are unable to ascertain our exposure, if any.

We warrant all custom products and application specific products, including cards and boards, against defects in materials and workmanship for a period of 12 months, and occasionally we may provide an extended warranty from the delivery date. We warrant all of our standard products against defects in materials and workmanship for a period of 90 days from the date of delivery. Reserve requirements are recorded in the period of sale and are based on an assessment of the products sold with warranty, historical warranty costs incurred and customer/product specific circumstances. Our liability is generally limited, at our option, to replacing, repairing, or issuing a credit (if it has been paid for). Our warranty does not cover damage which results from accident, misuse, abuse, improper line voltage, fire, flood, lightning or other damage resulting from modifications, repairs or alterations performed other than by us, or resulting from failure to comply with our written operating and maintenance instructions. Warranty expense has historically been immaterial for our products. The warranty liabilities related to our product sales as of September 29, 2013 of $1.4 million was established for the return of certain older generation data compression products shipped in prior years, and warranty liability as of March 31, 2013 was immaterial.

As of the dates indicated below, our warranty reserve balance, which is included in the "Other current liabilities" line item on the condensed consolidated balance sheets, consisted of the following (in thousands):

	September 29, 2013	March 31, 2013
Beginning balance	$ 50	$ 90
Provisions for warranties issued	1,357	-
Settlements/adjustments	-	(40)
Ending balance	$ 1,407	$ 50

In the ordinary course of business, we may provide for indemnification of varying scope and terms to customers, vendors, lessors, business partners, purchasers of assets or subsidiaries, and other parties with respect to certain matters, including, but not limited to, losses arising out of our breach of agreements or representations and warranties made by us, services to be provided by us, intellectual property infringement claims made by third parties or, matters related to our conduct of the business. In addition, we have entered into indemnification agreements with our directors and certain of our executive officers that will require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or executive officers. We maintain director and officer liability insurance, which may cover certain liabilities arising from our obligation to indemnify our directors and officers, and former directors and officers of acquired companies, in certain circumstances.

It is not possible to determine the aggregate maximum potential loss under these indemnification agreements due to the unique facts and circumstances involved in each particular agreement and claims. Such indemnification agreements might not be subject to maximum loss clauses. Historically, we have not incurred material costs as a result of obligations under these agreements and we have not accrued any liabilities related to such indemnification obligations in our condensed consolidated financial statements.

NOTE 15. LEGAL PROCEEDINGS

From time to time, we are involved in various claims, legal actions and complaints arising in the normal course of business. Although the ultimate outcome of the matters discussed below and other matters is not presently determinable, management currently believes that the resolution of all such pending matters will not have a material adverse effect on our financial position, results of operations or cash flows.

Two former employees of Exar's French subsidiary have filed claims against that French subsidiary for alleged unfair dismissal in the French Labor Courts. Those former employees seek damages in the amounts of € 690,830 and € 511,951, respectively. Exar believes that the former employees were terminated in accordance with the requirements of French law, the former employees' claims are not supported by any relevant evidence, and, in any event, the damages sought are disproportionate to any alleged loss incurred by those former employees. The matters are in the early stages and we intend to vigorously defend our positions.

NOTE 16. INCOME TAXES

During the three and six months ended September 29, 2013, we recorded an income tax benefit of approximately $6.8 million. The income tax benefit was primarily due to the impact of the acquisition of Cadeka on Exar's valuation allowance, the impact of which is recorded outside of purchase accounting, resulting in a release of the valuation allowance and an income tax benefit of $6.8 million. We recorded no income tax expense during the three months ended September 30, 2012 and $22,000 during the six months ended September 30, 2012.

During the three and six months ended September 29, 2013, the unrecognized tax benefits decreased by $13,000 and $31,000, respectively, to $15.4 million. The current unrecognized tax benefit was primarily related to the release of foreign liabilities and interest due to lapse of statute of limitations and R&D credits. If recognized, $12.9 million of these unrecognized tax benefits (net of federal benefit) would be recorded as a reduction of future income tax provision before consideration of changes in the valuation allowance for deferred tax assets.

Estimated interest and penalties related to the income taxes are classified as a component of the provision for income taxes in the condensed consolidated statement of operations. Accrued interest and penalties consisted of the following as of the dates indicated (in thousands):

	September 29, 2013	March 31, 2013
Accrued interest and penalties	$ 249	$ 228

Our major tax jurisdictions are the United States federal and various states, Canada, China and certain other foreign jurisdictions. The fiscal years 2003 through 2012 remain open and subject to examinations by the appropriate governmental agencies in the United States and certain foreign jurisdictions.

On November 6, 2012, California passed Proposition 39, which mandates most taxpayers to apportion their California income by using a single sales factor and requires all taxpayers to use market-based sourcing for sale receipts for tax years beginning or after January 1, 2013. The enacted law will impact Exar during fiscal year 2014.

Per the 2012 Tax Relief Act enacted in January 2013, the federal R&D credit is retroactively extended through 2013. No R&D credit and related reserve is considered in the second quarter of fiscal year 2014 tax provision pending improvement in our future visibility of the incremental R&D expenses. However, as a full valuation allowance is placed on the deferred tax assets, there is no impact on the statement of operations.

NOTE 17. SEGMENT AND GEOGRAPHIC INFORMATION

We operate in one reportable segment which is comprised of one operating segment. We design, develop and market high performance analog mixed-signal integrated circuits and advanced sub-system solutions for the Networking & Storage, Industrial & Embedded Systems, and Communications Infrastructure markets. Our product portfolio includes power management and connectivity components, communications products, and data compression and storage solutions.

Our net sales by end market were summarized as follows as of the dates indicated below (in thousands):

	Three Months Ended		Six Months Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Industrial & Embedded Systems	$ 17,943	$ 15,923	$ 34,441	$ 32,011
Networking & Storage	10,273	7,656	20,180	14,091
Communications Infrastructure	5,697	6,737	11,673	13,465
Other	105	306	351	306
Total net sales	$ 34,018	$ 30,622	$ 66,645	$ 59,873

Our foreign operations are conducted primarily through our wholly-owned subsidiaries in Canada, China, France, Germany, Japan, Malaysia, South Korea, Taiwan and the United Kingdom. Our principal markets include North America, Europe and the Asia Pacific region. Net sales by geographic areas represent direct sales principally to original equipment manufacturers ("OEM"), or their designated subcontract manufacturers, and to distributors (affiliated and unaffiliated) who buy our products and resell to their customers.

Our net sales by geographic area for the periods indicated below were as follows (in thousands):

	Three Months Ended		Six Months Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
United States	$ 11,572	$ 8,083	$ 22,040	$ 14,276
China	11,341	10,720	22,294	20,709
Singapore	3,534	3,280	6,930	7,316
Germany	2,888	3,165	5,668	6,203
Japan	1,613	1,387	2,839	2,868
Europe (excluding Germany)	836	1,438	1,525	2,543
Rest of world	2,234	2,549	5,349	5,958
Total net sales	$ 34,018	$ 30,622	$ 66,645	$ 59,873

Substantially all of our long-lived assets at each of September 29, 2013 and March 31, 2013 were located in the United States.

The following distributors and customer accounted for 10% or more of our net sales in the periods indicated:

	Three Months Ended		Six Months Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Distributor A	27%	30%	27%	32%
Distributor B	26%	11%	24%	10%
Distributor C	11%	10%	11%	10%

No other distributor or customer accounted for 10% or more of the net sales for the three and six months ended September 29, 2013 and September 30, 2012, respectively.

The following distributors accounted for 10% or more of our net accounts receivable as of the dates indicated:

	September 29, 2013	March 31, 2013
Distributor A	16%	21%
Distributor B	39%	20%
Distributor D	*	11%

* Accounts receivable for this distributor for this period were less than 10% of total account balance.

No other distributor or customer accounted for 10% or more of the net accounts receivable as of September 29, 2013 and March 31, 2013, respectively.

NOTE 18. ASSETS HELD FOR SALE

During fiscal year 2013, we started actively looking for potential buyers for our Fremont campus. In the first quarter of our fiscal year 2014, we reclassified the related property and land as held for sale as of June 30, 2013, as we have met all criteria to classify these assets as held for sale. These assets have been recorded at their carrying amount since it is lower than their estimated fair value, less estimated selling costs (in thousands). As required under current accounting guidance, depreciation of the building ceased upon reclassification as an asset held for sale.

	September 29, 2013
Land	$ 6,660
Building	6,423
Total assets held for sale	$ 13,083

On July 9, 2013, we entered into a Purchase and Sale Agreement ("Purchase Agreement") with Ellis Partners LLC ("Ellis"). The Purchase Agreement provided for the sale of Exar's Fremont campus to Ellis Partners and the leaseback by Exar of the building located at 48760 Kato Road. The Purchase Agreement was anticipated to close by the end of September 2013. Prior to closing, Ellis requested certain modifications to the Purchase Agreement that Exar deemed unacceptable. As a result, the Purchase Agreement terminated as of September 30, 2013. The Company intends to continue pursuing options to optimize its operating efficiency, including continuing to market the facilities for sale.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as information contained in "Part II, Item 1A." below and elsewhere in this Quarterly Report on Form 10-Q, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are generally written in the future tense and/or may generally be identified by words such as "will," "may," "should," "would," "could," "expect," "suggest," "possible," "potential," "target," "commit," "continue," "believe," "anticipate," "intend," "project," "projected," "positioned," "plan," or other similar words. Forward-looking statements contained in this Quarterly Report include, among others, statements made in Part II, Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Executive Summary" and elsewhere regarding (1) our future strategies and target market; (2) our future revenues, gross profits and margins; (3) our future research and development ("R&D") efforts and related expenses; (4) our future selling, general and administrative expenses ("SG&A"); (5) our cash and cash equivalents, short-term marketable securities and cash flows from operations being sufficient to satisfy working capital requirements and capital equipment needs for at least the next 12 months; (6) our ability to continue to finance operations with cash flows from operations, existing cash and investment balances, and some combination of long-term debt and/or lease financing and sales of equity securities; (7) the possibility of future acquisitions and investments; (8) our ability to accurately estimate our assumptions used in valuing stock-based compensation; (9) our ability to estimate and reconcile distributors' reported inventories to their activities; (10) our ability to estimate future cash flows associated with long-lived assets; and (11) the volatile global economic and financial market conditions. These statements reflect our current views with respect to future events and our potential financial performance and are subject to risks and uncertainties that could cause our business, operating results and financial condition to differ materially and adversely from what is projected or implied by any forward- looking statement included in this Quarterly Report. Factors that could cause actual results to differ materially from those stated herein include, but are not limited to: the information contained under the caption "Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Part II, Item 1A. Risk Factors," as well as those risks discussed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2013. We disclaim any obligation to update information in any forward-looking statement, except as required by law.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the condensed consolidated financial statements and notes thereto, included in this Quarterly Report and our audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2013, as filed with the Securities and Exchange Commission ("SEC"). Our results of operations for the three and six months ended September 29, 2013 are not necessarily indicative of results to be expected for any future period.

Business Overview

Exar Corporation ("Exar" or "we") designs, develops and markets high performance analog mixed-signal integrated circuits and advanced sub-system solutions for the Networking & Storage, Industrial & Embedded Systems, and Communications Infrastructure markets. Exar's product portfolio includes power management and connectivity components, high-performance analog and mixed-signal products, communications products, and data compression and storage solutions. Our comprehensive knowledge of end-user markets along with the underlying analog, mixed signal and digital technology has enabled us to provide innovative solutions designed to meet the needs of the evolving connected world. Applying both analog and digital technologies, our products are deployed in a wide array of applications such as industrial, instrumentation and medical equipment, networking and telecommunication systems, servers, enterprise storage systems, set top boxes and digital video recorders. We provide customers with a breadth of component products and sub-system solutions based on advanced silicon integration.

We market our products worldwide with sales offices and personnel located throughout the Americas, Europe, and Asia. Our products are sold in the United States through a number of manufacturers' representatives and distributors. Internationally, our products are sold primarily through various regional and country specific distributors, as well as some manufacturers representatives. Globally, these channel partners are assisted and managed by our regional sales teams. In addition to our regional sales teams, we also employ a worldwide team of field application engineers to work directly with our customers.

Our international sales are denominated in U.S. dollars. Our international related operating expenses expose us to fluctuations in currency exchange rates because our foreign operating expenses are denominated in foreign currencies while our sales are denominated in U.S. dollars. Our operating results are subject to fluctuations as a result of several factors that could materially and adversely affect our future profitability as described in *"Part II, Item 1A. Risk Factors—Our Financial Results May Fluctuate Significantly Because Of A Number Of Factors, Many Of Which Are Beyond Our Control."*

Our fiscal years consist of 52 or 53 weeks. In a 52-week year, each fiscal quarter consists of 13 weeks. Fiscal years 2014 and 2013 both consist of 52 weeks. The second quarter of fiscal years 2014 and 2013 both consist of 13 weeks. All references to quarterly, three or six months ended financial results are references to the results of the relevant fiscal period.

Prior to July 29, 2013, our common stock was principally listed and traded on the NASDAQ Global Select Market (the "NASDAQ") under the ticker symbol "EXAR". Our common stock was approved for listing on the New York Stock Exchange (the "NYSE"), and on July 29, 2013, we began trading our common stock on the NYSE. Our common stock has continued to trade on the NYSE under the ticker symbol "EXAR." Our common stock ceased trading on the NASDAQ effective at the close of the market on July 26, 2013.

Overview

Quarterly revenues of $34.0 million for the second quarter of fiscal 2014 increased $1.4 million or 4% from the previous quarter's revenue of $32.6 million and increased $3.4 million or 11% over $30.6 million reported in the second quarter of fiscal year 2013. Net income of $6.5 million increased $5.7 million over the first quarter of fiscal year 2014 and increased $6.2 million from the second quarter of fiscal year 2013. The current fiscal quarter includes a full quarter of the amortization of purchased intangibles and operating expenses of the Altior and Cadeka acquisitions, and a $6.8 million tax benefit as a result of the reversal of a portion of our valuation on deferred tax assets due to the assumption of a deferred tax liability in the Cadeka acquisition. Diluted earnings per share of $0.13 per share in the second quarter of fiscal year 2014 increased $0.11 per share over the first quarter of fiscal year 2014 and increased $0.12 per share over the income reported in the second quarter of fiscal year 2013.

Critical Accounting Policies and Estimates

There have been no significant changes to our critical accounting policies during the three and six months ended September 29, 2013, as compared to the previous disclosures in Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2013.

Results of Operations

Our Statements of Operations data and percentage of revenue were as follows for the periods presented (in thousands, except percentages):

	Three months			
	September 29, 2013	**September 30, 2012**	**Change**	
Net Sales	$ 34,018	$ 30,622	$ 3,396	11%
Cost of sales:				
Cost of sales	12,371	12,054	317	3%
Cost of sales-related party	4,156	4,380	(224)	(5)%
Amortization of purchased intangible assets and inventory step-up	2,098	858	1,240	145%
Warranty Reserve	1,440	—	1,440	—
Restructuring charges and exit costs	24	—	24	—
Total cost of sales	20,089	17,292	2,797	16%
Gross profit	13,929	13,330	599	4%
Operating expenses:				
Research and development	7,136	5,773	1,363	24%
Selling, general and administrative	9,520	7,639	1,881	25%
Restructuring charges and exit costs	384	291	93	32%
Net change in fair value of contingent consideration	(2,495)	—	(2,495)	—
Total operating expenses	14,545	13,703	842	6%
Loss from operations	(616)	(373)	(243)	(65)%
Interest income and other, net	372	674	(302)	(45)%
Interest expense	(41)	(38)	(3)	(8)%
Income (Loss) before income taxes	(285)	263	(548)	(208)%
(Benefit from) Provision for income taxes	(6,767)	—	(6,767)	—
Net income (loss)	$ 6,482	$ 263	$ 6,219	2,365%

	Six months September 29, 2013	Six months September 30, 2012	Change	
Net Sales	$ 66,645	$ 59,873	$ 6,772	11%
Cost of sales:				
Cost of sales	24,183	22,924	1,259	5%
Cost of sales-related party	8,063	8,892	(829)	(9)%
Amortization of purchased intangible assets and inventory step-up	3,448	1,777	1,671	94%
Warranty Reserve	1,440	—	1,440	—
Restructuring charges and exit costs	105	81	24	30%
Total cost of sales	37,239	33,674	3,565	11%
Gross profit	29,406	26,199	3,207	12%
Operating expenses:				
Research and development	13,334	11,222	2,112	19%
Selling, general and administrative	17,321	15,421	1,900	12%
Restructuring charges and exit costs	1,315	1,095	220	20%
Net change in fair value of contingent consideration	(2,495)	—	(2,495)	—
Total operating expenses	29,475	27,738	1,737	6%
Loss from operations	(69)	(1,539)	1,470	96%
Interest income and other, net	659	1,320	(661)	(50)%
Interest expense	(78)	(72)	(6)	(8)%
Income (Loss) before income taxes	512	(291)	803	276%
(Benefit from) Provision for income taxes	(6,776)	22	(6,798)	(30,900)%
Net income (loss)	$ 7,288	$ (313)	$ 7,601	2,428%

Revenue

Our net sales by end market in dollars and as a percentage of net sales were as follows for the periods presented (in thousands, except percentages):

	Three Months Ended September 29, 2013		Three Months Ended September 30, 2012		Change	Six Months Ended September 29, 2013		Six Months Ended September 30, 2012		Change
Net Sales:										
Industrial & Embedded Systems	$ 17,943	53%	$ 15,923	52%	13%	$ 34,441	52%	$ 32,011	53%	8%
Networking & Storage	10,273	30%	7,656	25%	34%	20,180	30%	14,091	24%	43%
Communications Infrastructure	5,697	17%	6,737	22%	(15)%	11,673	17%	13,465	22%	(13)%
Other	105	—	306	1%	(66)%	351	1%	306	1%	15%
Total	$ 34,018	100%	$ 30,622	100%		$ 66,645	100%	$ 59,873	100%	

Geographically, our net sales in dollars and as a percentage of total net sales were as follows for the periods presented (in thousands, except percentages):

	Three Months Ended September 29, 2013		Three Months Ended September 30, 2012		Change	Six Months Ended September 29, 2013		Six Months Ended September 30, 2012		Change
Net Sales:										
Asia	$ 18,535	54%	$ 17,754	58%	4%	$ 36,985	55%	$ 36,541	61%	1%
Americas	11,760	35%	8,265	27%	42%	22,468	34%	14,586	24%	54%
Europe	3,723	11%	4,603	15%	(19%)	7,192	11%	8,746	15%	(18%)
Total	$ 34,018	100%	$ 30,622	100%		$ 66,645	100%	$ 59,873	100%	

Revenue for the three and six months ended September 29, 2013 increased $3.4 million and $6.8 million, respectively, as compared to the same period a year ago. The increase was primarily due to overall demand increase from customers and distributors in our major end markets, with the exception of the Communication Infrastructure end market. The revenue decrease in Communication Infrastructure market was primarily due to a combination of a decrease in average selling prices and reduced shipment volume.

Revenue from Americas for the three and six months ended September 29, 2013 increased $3.5 million and $7.9 million, respectively, as compared to the same period a year ago. The increase was primarily due to increased shipment volume in the Network & Storage market.

Gross Profit

Gross profit as a percentage of net sales for the three and six months ended September 29, 2013 decreased by approximately 3% and remained consistent, respectively, as compared to the same period a year ago. The decrease in gross profit percentage was primarily due a warranty reserve recorded during the three months ended September 29, 2013. The warranty reserve was established for the return of certain older generation data compression products shipped in prior years.

We believe that gross profit will fluctuate as a percentage of net sales and in absolute dollars due to, among other factors, the inclusion of the amortization of the costs of acquired intangibles, product and manufacturing costs, warranty costs related to our product sales, provision for excess and obsolete inventory, our ability to leverage fixed operational costs, shipment volumes, competitive pricing pressure on our products, and currency fluctuations.

Research and Development ("R&D")

R&D expenses for the three and six months ended September 29, 2013 increased $1.4 million and $2.1 million, respectively, as compared to the same period a year ago. The increase was primarily a result of the inclusion of the former Altior and Cadeka operations.

We have a contractual agreement under which certain of our R&D costs are eligible for reimbursement. Reimbursements under this arrangement are offset against R&D expenses. For both the second quarter of fiscal years 2014 and 2013, we offset $0.5 million of R&D expenses in connection with this agreement, respectively. For both the six months of fiscal years 2014 and 2013, we offset $1.0 million of R&D expenses in connection with this agreement.

We believe that R&D expenses will slightly increase in absolute dollars due to, among other factors, the inclusion of costs associated with acquired operations, increased investment in software development, variable compensation, incentives, annual merit increases and fluctuations in reimbursements under a research and development contract.

Selling, General and Administrative ("SG&A")

SG&A expenses for the three and six months ended September 29, 2013 each increased $1.9 million, compared with the same period a year ago mainly due to $2.5 million decrease in the fair value of Altior earn-out liability offset by the inclusion of the former Altior and Cadeka operations.

We believe that SG&A expenses will slightly increase in absolute dollars due to, among other factors, the inclusion of costs associated with acquired operations, variable commissions, legal costs, variable compensation, incentives and annual merit increases.

Restructuring Charges and Exit Costs

Restructuring charges and exit costs for the six months ended September 29, 2013 increased $0.2 million due to efforts to sell and market our campus in Fremont, California, as compared to the same period a year ago. *See "Note 8 – Restructuring Charges and Exit Costs."*

Interest Income and Other, Net

Interest income and other, net primarily consists of interest income; foreign exchange gains or losses; and realized gains or losses on marketable securities.

The decrease in interest income and other, net during the three and six months ended September 29, 2013, as compared to the same period a year ago was primarily attributable to the decrease in interest income as a result of lower yield related to our cash and short-term investments.

Interest Expense

We have acquired engineering design tools ("Design Tools") under capital leases recorded in the property, plant and equipment, net line item in the condensed consolidated balance sheets. The obligations related to the Design Tools were included in other current liabilities and long-term lease financing obligations in our condensed consolidated balance sheets. The effective interest rates for the Design Tools range from 2.0% to 7.25%. *See "Note 13 – Lease Financing Obligations."*

Interest expenses recorded for the Design Tools capital lease obligations were $39,000 and $76,000 for the three and six months ended September 29, 2013, respectively. Interest expenses recorded for the Design Tools capital lease obligations were $38,000 and $72,000 for the three and six months ended September 30, 2012, respectively.

Provision for Income Taxes

During both the three and six months ended September 29, 2013, we recorded an income tax benefit of approximately $6.8 million. The income tax benefit was primarily due to the impact of the acquisition of Cadeka on Exar's valuation allowance, the impact of which is recorded outside of purchase accounting, resulting in a release of the valuation allowance and an income tax benefit of $6.8 million. We recorded no income tax expense during the three months ended September 30, 2012 and $22,000 during the six months ended September 30, 2012.

Liquidity and Capital Resources

	Six Months Ended	
	September 29, 2013	**September 30, 2012**
	(dollars in thousands)	
Cash and cash equivalents	$ 10,051	$ 10,423
Short-term investments	174,862	187,629
Total cash, cash equivalents and short-term investments	$ 184,913	$ 198,052
Percentage of total assets	59%	73%
Net cash provided by operating activities	$ 4,552	$ 43
Net cash used in investing activities	(8,117)	(878)
Net cash provided by (used) in financing activities	(1,102)	2,544
Net increase (decrease) in cash and cash equivalents	$ (4,667)	$ 1,709

Fiscal Year 2014

Our net income was approximately $7.3 million for the six months ended September 29, 2013. After adjustments for non-cash items and changes in working capital, we generated $4.6 million of cash from operating activities.

Significant non-cash charges included:

- depreciation and amortization expenses of $6.2 million;
- stock-based compensation expense of $4.7 million;
- release of deferred tax valuation of $6.8 million; and
- net change in fair value of contingent consideration for Altior acquisition of $2.5 million.

Working capital changes included:

- a $4.2 million increase in accounts receivable primarily due to the increase in shipments in the latter part of the quarter;
- a $1.3 million decrease in inventory due to an increase in shipments; and
- a $3.3 million decrease in other current and non-current liabilities due to full payment of a $3.0 million dispute resolution liability, $1.7 million payment for mask costs and paydown of liabilities relating to manufacturing expenses, royalties and licenses.

In the six months ended September 29, 2013, net cash used in investing activities was $8.1 million. Proceeds of $132.2 million from sales and maturities of investments and $0.1 million from sale of intellectual property were offset by $116.6 million purchase of investments, $23.1 million acquisition of Cadeka and $0.7 million used for purchases of property, plant and equipment and intellectual property.

In the six months ended September 29, 2013, net cash used in financing activities reflects $1.9 million of net proceeds received from our employee stock plans offset by $2.0 million repurchased of our common stocks and $1.0 million repayment of lease financing obligations.

Fiscal Year 2013

Our net loss was approximately $0.3 million for the six months ended September 30, 2012. After adjustments for non-cash items and changes in working capital, we generated $43,000 of cash from operating activities.

Significant non-cash charges included:

- depreciation and amortization expenses of $5.9 million; and
- stock-based compensation expense of $1.5 million.

Working capital changes included:

- a $5.4 million increase in accounts receivable primarily due to an increase in revenue and the timing of shipments;
- a $2.3 million decrease in inventory due to an increase in shipments; and
- a $3.2 million decrease in accrued restructuring charges and exit costs, primarily due to payments made.

In the six months ended September 30, 2012, net cash provided by investing activities reflects net proceeds from sales and maturities of short-term marketable securities of $0.1 million offset by $1.1 million in purchases of property, plant and equipment and intellectual property.

In the six months ended September 30, 2012, net cash provided by financing activities reflects $3.2 million of proceeds associated with our employee stock plans partially offset by the $0.6 million repayment of lease financing obligations.

To date, inflation has not had a significant impact on our operating results.

We anticipate that we will continue to finance our operations with cash flows from operations, existing cash and investment balances.

We believe that our cash and cash equivalents, short-term marketable securities and expected cash flows from operations will be sufficient to satisfy working capital requirements, capital equipment, intellectual property, and stock repurchase needs for at least the next 12 months. However, should the demand for our products decrease in the future, the availability of cash flows from operations may be limited, which could have a material adverse effect on our financial condition and results of operations. From time to time, we evaluate potential acquisitions, strategic arrangements and equity investments that we believe are complementary to our design expertise and market strategy. To the extent that we pursue or position ourselves to pursue these transactions, we could consume a significant portion of our capital resources or choose to seek additional equity or debt financing. Additional financing may not be available on terms acceptable to us or at all. The sale of additional equity or convertible debt could result in dilution to our stockholders.

Recent Accounting Pronouncements

Please refer to "*Part I, Item 1. Financial Statements*" and "*Notes to Condensed Consolidated Financial Statements, Note 2 – Recent Accounting Pronouncements*."

Off-Balance Sheet Arrangements

We have not utilized special purpose entities to facilitate off-balance sheet financing arrangements. However, we have, in the normal course of business, entered into agreements which impose warranty obligations with respect to our products or which obligate us to provide indemnification of varying scope and terms to customers, vendors, lessors and business partners, our directors and executive officers, purchasers of assets or subsidiaries, and other parties with respect to certain matters. These arrangements may constitute "off-balance sheet transactions" as defined in Section 303(a)(4) of Regulation S-K. Please see *"Note 14–Commitments and Contingencies"* to the condensed consolidated financial statements for further discussion of our product warranty liabilities and indemnification obligations.

As discussed in *"Note 14–Commitments and Contingencies,"* during the normal course of business, we make certain indemnities and commitments under which we may be required to make payments in relation to certain transactions. These indemnities include non-infringement of patents and intellectual property, indemnities to our customers in connection with the delivery, design, manufacture and sale of our products, indemnities to our directors and officers in connection with legal proceedings, indemnities to various lessors in connection with facility leases for certain claims arising from such facility or lease and indemnities to other parties to certain acquisition agreements. The duration of these indemnities and commitments varies, and in certain cases, is indefinite. We believe that substantially all of our indemnities and commitments provide for limitations on the maximum potential future payments we could be obligated to make. However, we are unable to estimate the maximum amount of liability related to our indemnities and commitments because such liabilities are contingent upon the occurrence of events which are not reasonably determinable.

Contractual Obligations and Commitments

Our contractual obligations and commitments at September 29, 2013 were as follows (in thousands):

	Payments due by period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Purchase commitments (1)	$ 22,088	$ 22,088	$ —	$ —	$ —
Lease financing obligations (2)	5,292	1,009	1,498	754	2,031
Total	$ 27,380	$ 23,097	$ 1,498	$ 754	$ 2,031

____

(1) We place purchase orders with wafer foundries, back end suppliers and other vendors as part of our normal course of business. We expect to receive and pay for wafers, capital equipment and various service contracts over the next 12 months from our existing cash balances.

(2) Operating lease payments including some of our worldwide offices.

Other commitments

As of September 29, 2013, our unrecognized tax benefits were $15.4 million, of which $2.2 million was classified as other non-current obligations. We believe that it is reasonably possible that the amount of gross unrecognized tax benefits related to the resolution of income tax matters could be reduced by approximately $1.3 million as the statute of limitations expires. *See "Note 16 – Income Taxes."*

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Fluctuations. We are exposed to foreign currency fluctuations primarily through our foreign operations. This exposure is the result of foreign operating expenses being denominated in foreign currency. Operational currency requirements are typically forecasted for a one-month period. If there is a need to hedge this risk, we may enter into transactions to purchase currency in the open market or enter into forward currency exchange contracts.

If our foreign operations forecasts are overstated or understated during periods of currency volatility, we could experience unanticipated currency gains or losses. At September 29, 2013 and September 30, 2012, we did not have significant foreign currency denominated net assets or net liabilities positions and had no foreign currency contracts outstanding.

Investment Risk and Interest Rate Sensitivity. We maintain investment portfolio holdings of various issuers, types, and maturity dates with two professional management institutions. The fair value of these investments on any given day during the investment term may vary as a result of market interest rate fluctuations. Our investment portfolio consisted of cash equivalents, money market funds and fixed income securities of $177.3 million as September 29, 2013 and $195.6 million as of March 31, 2013. These securities, like all fixed income instruments, are subject to interest rate risk and will vary in value as market interest rates fluctuate. If market interest rates were to increase or decline immediately and uniformly by 10% or less from levels as of September 29, 2013, the increase or decline in the fair value of the portfolio would not be material. At September 29, 2013, the difference between the fair value and the underlying cost of the investments portfolio was an unrealized loss of $0.9 million, net of taxes.

Our short-term investments are classified as "available-for-sale" securities and the cost of securities sold is based on the specific identification method. At September 29, 2013, short-term investments consisted of corporate bonds and securities, asset and mortgage-backed securities, U.S. government agency securities, U.S. Treasury securities and state and local government securities of $174.9 million.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures ("Disclosure Controls")

Disclosure Controls, as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended ("Exchange Act"), are controls and procedures designed to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act, is recorded, processed, summarized and reported within the time periods as specified in the SEC's rules and forms. In addition, Disclosure Controls are designed to ensure the accumulation and communication of information required to be disclosed in reports filed or submitted under the Exchange Act to our management, including the Chief Executive Officer (our principal executive officer) ("CEO") and Chief Financial Officer (our principal financial officer) ("CFO"), to allow timely decisions regarding required disclosure.

We evaluated the effectiveness of the design and operation of our Disclosure Controls, as defined by the rules and regulations of the SEC ("Evaluation"), as of the end of the period covered by this Quarterly Report on Form 10-Q. This Evaluation was performed under the supervision and with the participation of management, including our CEO, as principal executive officer, and CFO, as principal financial officer.

Attached as Exhibits 31.1 and 31.2 of this Quarterly Report on Form 10-Q are the certifications of the CEO and the CFO, respectively, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 ("Certifications"). This section of the Quarterly Report on Form 10-Q provides information concerning the Evaluation referred to in the Certifications and should be read in conjunction with the Certifications.

Based on the Evaluation, our CEO and CFO have concluded that our Disclosure Controls are effective at the reasonable assurance level as of September 29, 2013.

Inherent Limitations on the Effectiveness of Disclosure Controls

Our management, including the CEO and CFO, does not expect that our Disclosure Controls will prevent all errors and all fraud. Disclosure Controls, no matter how well conceived, managed, utilized and monitored, can provide only reasonable assurance that the objectives of such controls are met. Therefore, because of the inherent limitation of Disclosure Controls, no evaluation of such controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The disclosure in "*Notes to Condensed Consolidated Financial Statements, Note 15– Legal Proceedings*" contained in "*Part I, Item 1. Financial Statements*" is hereby incorporated by reference.

ITEM 1A. RISK FACTORS

We are subject to the following risks, as well as others, that could materially and adversely affect our business, results of operations and financial condition. The following risk factors and other information included in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for our fiscal year ended March 31, 2013 should be carefully considered. The risks and uncertainties described below, in the Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2013 and in our Annual Report on Form 10-K for our fiscal year ended March 31, 2013 are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations if circumstances change. If any of the following risks occur, our business, financial condition, operating results and cash flows could be materially adversely affected.

Our financial results may fluctuate significantly because of a number of factors, many of which are beyond our control.

Our financial results may fluctuate significantly as a result of a number of factors, many of which are difficult or impossible to control or predict, which include:

- the continuing effects of economic uncertainty;
- the cyclical nature of the general economy and the semiconductor industry;
- difficulty in predicting revenues and ordering the correct mix of components from suppliers due to limited visibility into customers and channel partners;
- changes in the mix of product sales as our margins vary by product;
- fluctuations in the capitalization and amortization of unabsorbed manufacturing costs;
- the impact of our revenue recognition policies on reported results and warranty costs related to our product sales;
- the reduction, rescheduling, cancellation or timing of orders by our customers, distributors and channel partners due to, among others, the following factors:
    - management of customer, subcontractor, logistic provider and/or channel inventory;
    - delays in shipments from our foundries and subcontractors causing supply shortages;
    - inability of our foundries and subcontractors to provide quality products, in adequate quantities and in a timely manner;
    - dependency on a single product with a single customer and/or distributor;
    - volatility of demand for equipment sold by our large customers, which in turn, introduces demand volatility for our products;
    - demand disruption if customers change or modify their complex subcontract manufacturing supply chain;
    - demand disruption in customer demand due to technical or quality issues with our devices or components in their system;
    - the inability of our customers to obtain components from their other suppliers;
    - disruption in sales or distribution channels;
    - our ability to maintain and expand distributor relationships;
    - changes in sales and implementation cycles for our products;
    - the ability of our suppliers and customers to remain solvent, obtain financing or fund capital expenditures as a result of the recent global economic slowdown;
    - risks associated with entering new markets;

- the announcement or introduction of products by our existing competitors or new competitors;
- loss of market share by our customers;
- competitive pressures on selling prices or product availability;
- pressures on selling prices overseas due to foreign currency exchange fluctuations;
- erosion of average selling prices coupled with the inability to sell newer products with higher average selling prices, resulting in lower overall revenue and margins;
- delays in product releases;
- market and/or customer acceptance of our products;
- consolidation among our competitors, our customers and/or our customers' customers;
- changes in our customers' end user concentration or requirements;
- loss of one or more major customers;
- significant changes in ordering pattern by major customers;
- our or our channel partners' or logistic providers' ability to maintain and manage appropriate inventory levels;
- the availability and cost of materials, services or processing capabilities, including foundry, assembly and test capacity, needed by us from our foundries and other manufacturing suppliers;
- disruptions in our or our customers' supply chain due to natural disasters, fire, outbreak of communicable diseases, labor disputes, civil unrest or other reasons;
- delays in successful transfer of manufacturing processes to our subcontractors;
- fluctuations in the manufacturing output, yields, and capacity of our suppliers;
- fluctuation in suppliers' capacity due to reorganization, relocation or shift in business focus, financial constraints, or other reasons;
- problems, costs, or delays that we may face in shifting our products to smaller geometry process technologies and in achieving higher levels of design and device integration;
- our ability to successfully introduce and transfer into production new products and/or integrate new technologies;
- excess inventory levels or unanticipated inventory write-downs if expected orders fail to materialize or inventory becomes obsolete;
- increased manufacturing costs;
- higher mask tooling costs associated with advanced technologies; and/or
- the amount and timing of our investment in research and development;

- costs and business disruptions associated with stockholder or regulatory issues;
- the timing and amount of employer payroll tax to be paid on our employees' gains on exercise of stock options;
- an inability to generate profits to utilize net operating losses;
- increased costs and time associated with compliance with new accounting rules or new regulatory requirements;

- changes in accounting or other regulatory rules, such as the requirement to record assets and liabilities at fair value;
- write-off of some or all of our goodwill and other intangible assets;
- fluctuations in interest rates and/or market values of our marketable securities;
- litigation costs associated with the defense of suits brought or complaints made against us or enforcement of our rights;
- change in fair value of contingent consideration; and/or
- changes in or continuation of certain tax provisions.

If we are unable to grow or secure and convert a significant portion of our design wins into revenue, our business, financial condition and results of operations would be materially and adversely impacted.

We continue to secure design wins for new and existing products. Such design wins are necessary for revenue growth. However, many of our design wins may never generate revenues if end-customer projects are unsuccessful in the market place, the end-customer terminates the project, which may occur for a variety of reasons or the end-customer selects a competitive solution. Mergers, consolidations, changing market requirements and cost reduction activities among our customers may lead to termination of certain projects before the associated design win generates revenue. If design wins do generate revenue, the time lag between the design win and meaningful revenue is typically between six months to longer than 18 months. If we fail to grow and convert a significant portion of our design wins into substantial revenue, our business, financial condition and results of operations could be materially and adversely impacted. Under continued uncertain global economic conditions, our design wins could be delayed even longer than the typical lag period and our eventual revenue could be less than anticipated from products that were introduced within the last eighteen to thirty-six months, which would likely materially and adversely affect our business, financial condition and results of operations.

Global capital, credit market, employment, and general economic and political conditions, and resulting declines in consumer confidence and spending, could have a material adverse effect on our business, operating results and financial condition.

Because our customers, suppliers and other business partners are in many countries around the world, we must monitor general global conditions for impact on our business. Economies throughout global regions continue to be volatile and, in many countries, inconsistent with trends in the U.S. or other stable economies. In Europe uncertainty continues regarding the ability of certain countries to service their level of debt. In recent quarters in China and certain other Asian countries growth has continued but at a slower pace than earlier in the recovery. Political conditions in individual countries or across regions can also impact our business.

We cannot predict the timing, severity or duration of any economic slowdown or recovery or the impact of any such events on our vendors, customers or us. If the economy or markets in which we operate deteriorate from current levels, many related factors could have a material adverse effect on our business, operating results, and financial condition, including the following:

- slower spending by our target markets and economic fluctuations may result in reduced demand for our products, reduced orders for our products, order cancellations, lower revenues, increased inventories, and lower gross margins;
- if recent restructuring activities insufficiently lower our operating expense or we fail to execute on our growth strategy, our restructuring efforts may not be successful and we may not be able to realize the cost savings and other anticipated benefits;
- if we further reduce our workforce or curtail or redirect research and development efforts, it may adversely impact our ability to respond rapidly to product development or growth opportunities;
- we may be unable to predict the strength or duration of market conditions or the effects of consolidation of our customers or competitors in their industries, which may result in project delays or cancellations;
- we may be unable to find suitable investments that are safe or liquid, or that provide a reasonable return resulting in lower interest income or longer investment horizons, and disruptions to capital markets or the banking system may also impair the value of investments or bank deposits we currently consider safe or liquid;

- the failure of financial institution counterparties to honor their obligations to us under credit instruments could jeopardize our ability to rely on and benefit from those instruments, and our ability to replace those instruments on the same or similar terms may be limited under poor market conditions;

- continued volatility in the markets and prices for commodities, such as gold, and raw materials we use in our products and in our supply chain, could have a material adverse effect on our costs, gross margins, and profitability;

- if distributors of our products experience declining revenues, experience difficulty obtaining financing in the capital and credit markets to purchase our products or experience severe financial difficulty, it could result in insolvency, reduced orders for our products, order cancellations, inability to timely meet payment obligations to us, extended payment terms, higher accounts receivable, reduced cash flows, greater expenses associated with collection efforts and increased bad debt expenses;

- if contract manufacturers or foundries of our products or other participants in our supply chain experience difficulty obtaining financing in the capital and credit markets to purchase raw materials or to finance general working capital needs, it may result in delays or non-delivery of shipments of our products;

- potential shutdowns or over capacity constraints by our third-party foundry, assembly and test subcontractors could result in longer lead-times, higher buffer inventory levels and degraded on-time delivery performance; and/or

- the current macroeconomic environment also limits our visibility into future purchases by our customers and renewals of existing agreements, which may necessitate changes to our business model.

If we fail to develop, introduce or enhance products that meet evolving needs or which are necessitated by technological advances, or we are unable to grow revenue in our served markets, then our business, financial condition and results of operations could be materially and adversely impacted.

The markets for our products are characterized by a number of factors, some of which are listed below:

- changing or disruptive technologies;

- evolving and competing industry standards;

- changing customer requirements;

- increasing price pressure from lower priced solutions;

- increasing product development costs;

- finite market windows for product introductions;

- design-to-production cycles;

- increasing functional integration;

- competitive solutions, stronger customer engagement or broader product offering;

- fluctuations in capital equipment spending levels and/or deployment;

- rapid adjustments in customer demand and inventory;

- moderate to slow growth;

- frequent product introductions and enhancements; and/or

- changing competitive landscape (due to consolidation, financial viability, etc.).

Our growth depends in large part on our continued development and timely release of new products for our core markets. We must: (1) anticipate customer and market requirements and changes in technology and industry standards; (2) properly define, develop and introduce new products on a timely basis; (3) gain access to and use technologies in a cost-effective manner; (4) have suppliers produce quality products consistent with our requirements; (5) continue to expand and retain our technical and design expertise; (6) introduce and cost-effectively deliver new products in line with our customer product introduction requirements; (7) differentiate our products from our competitors' offerings; and (8) gain customer acceptance of our products. In addition, we must continue to have our products designed into our customers' future products and maintain close working relationships with key customers to define and develop new products that meet their evolving needs. Moreover, we must respond in a rapid and cost-effective manner to shifts in market demands to increased functional integration and other changes. Migration from older products to newer products may result in earnings volatility as revenues from older products decline and revenues from newer products begin to grow.

Products for our customers' applications are subject to continually evolving industry standards and new technologies. Our ability to compete will depend in part on our ability to identify and ensure compliance with these industry standards. The emergence of new standards could render our products incompatible with other products that meet those standards. We could be required to invest significant time, effort and expense to develop and qualify new products to ensure compliance with industry standards.

The process of developing and supporting new products is complex, expensive and uncertain, and if we fail to accurately predict, understand and execute to our customers' changing needs and emerging technological trends, our business, financial condition and results of operations may be harmed. In addition, we may make significant investments to define new products according to input from our customers who may choose a competitor's or an internal solution or cancel their projects. We may not be able to identify new product opportunities successfully, develop and bring to market new products, achieve design wins, ensure when and which design wins actually get released to production, or respond effectively to technological changes or product announcements by our competitors. In addition, we may not be successful in developing or using new technologies or may incorrectly anticipate market demand and develop products that achieve little or no market acceptance. Our pursuit of technological advances may require substantial time and expense and may ultimately prove unsuccessful. Failure in any of these areas may materially and adversely harm our business, financial condition and results of operations.

We derive a substantial portion of our revenues from distributors, especially from our two primary distributors, Future Electronics Inc. ("Future"), a related party, and Arrow Electronics, Inc. ("Arrow"). Our revenues would likely decline significantly if our primary distributors elected not to or we were unable to effectively promote or sell our products or if they elected to cancel, reduce or defer purchases of our products.

Future and Arrow have historically accounted for a significant portion of our revenues and they are our two primary distributors worldwide. We anticipate that sales of our products to these distributors will continue to account for a significant portion of our revenues. The loss of either Future or Arrow as a distributor, for any reason, or a significant reduction in orders from either of them would materially and adversely affect our business, financial condition and results of operations.

Sales to Future and Arrow are made under agreements that provide protection against price reduction for their inventory of our products. As such, we could be exposed to significant liability if the inventory value of the products held by Future and Arrow declined dramatically. Our distributor agreements with Future and Arrow do not contain minimum purchase commitments. As a result, Future and Arrow could cease purchasing our products with short notice or cease distributing our products. In addition, they may defer or cancel orders without penalty, which would likely cause our revenues to decline and materially and adversely impact our business, financial condition and results of operations.

We depend on third-party subcontractors to manufacture our products. We utilize wafer foundries for processing our wafers and assembly and test subcontractors for manufacturing and testing our integrated circuit products and board assembly subcontractors for our board-level products. Any disruption in or loss of our subcontractors' capacity to manufacture and test our products subjects us to a number of risks, including the potential for an inadequate supply of products and higher materials costs. These risks may lead to delayed product delivery or increased costs, which could materially and adversely impact our business, financial condition and results of operations.

We do not own or operate a semiconductor fabrication facility or a foundry. We utilize various foundries for different processes. Our products are based on complementary metal oxide semiconductor ("CMOS") processes, bipolar processes and bipolar-CMOS ("BiCMOS") processes. Our foundries produce semiconductors for many other companies (many of which have greater volume requirements than us), and therefore, we may not have access on a timely basis to sufficient capacity or certain process technologies and we have from time to time, experienced extended lead times on some products. In addition, we rely on our foundries' continued financial health and ability to continue to invest in smaller geometry manufacturing processes and additional wafer processing capacity.

Many of our new products are designed to take advantage of smaller geometry manufacturing processes. Due to the complexity and increased cost of migrating to smaller geometries, as well as process changes, we could experience interruptions in production or significantly reduced yields causing product introduction or delivery delays. If such delays occur, our products may have delayed market acceptance or customers may select our competitors' products during the design process.

New and current process technologies or products can be subject to wide variations in manufacturing yields and efficiency. Our foundries or the foundries of our suppliers may experience unfavorable yield variances or other manufacturing problems that result in product introduction or delivery delays. Further, if the products manufactured by our foundries contain production defects, reliability issues or quality or compatibility problems that are significant to our customers, our reputation may be damaged and customers may cancel orders or be reluctant to continue to buy our products, which could adversely affect our ability to retain and attract new customers. In addition, these defects or bugs could interrupt or delay sales of affected products, which could materially and adversely affect our business, financial condition and results of operations.

Our foundries and test and assembly subcontractors manufacture our products on a purchase order basis. We provide our foundries with rolling forecasts of our production requirements; however, the ability of our foundries to provide wafers is limited by the foundries' available capacity. Our third-party foundries may not allocate sufficient capacity to satisfy our requirements. In addition, we may not continue to do business with our foundries on terms as favorable as our current terms.

Furthermore, any reduction or elimination of any primary source or sources of fully processed wafers could result in a material delay in the shipment of our products, lost sales opportunities, and increased costs. Any delays or shortages would likely materially and adversely impact our business, financial condition and results of operations. In particular, the products produced from the wafers manufactured by our supplier in Hangzhou, China currently constitute a significant part of our total revenue, and so any delay, reduction or elimination of our ability to obtain wafers from this supplier could materially and adversely impact our business, financial condition and results of operations.

Our reliance on our wafer foundries, assembly and test subcontractors and board assembly subcontractors involves the following risks, among others:

- a manufacturing disruption or reduction or elimination of any existing source(s) of semiconductor manufacturing materials or processes, which might include the potential closure, product and /or process discontinuation, change of ownership, change in business conditions or relationships, change of management or consolidation by one of our foundries;
- disruption of manufacturing or assembly or test services due to vendor transition, relocation or limited capacity of the foundries or subcontractors;
- inability to obtain, develop or ensure the continuation of technologies needed to manufacture our products;
- extended time required to identify, qualify and transfer to alternative manufacturing sources for existing or new products or the possible inability to obtain an adequate alternative;
- failure of our foundries or subcontractors to obtain raw materials and equipment;
- increasing cost of commodities, such as gold, raw materials and energy resulting in higher wafer or package costs;
- long-term financial and operating stability of the foundries or their suppliers or subcontractors and their ability to invest in new capabilities and expand capacity to meet increasing demand, to remain solvent or to obtain financing in tight credit markets;
- continuing measures taken by our suppliers such as reductions in force, pay reductions, forced time off or shut down of production for extended periods of time to reduce and/or control operating expenses in response to weakened customer demand;
- subcontractors' inability to transition to smaller package types or new package compositions;
- a sudden, sharp increase in demand for semiconductor devices, which could strain the foundries' or subcontractors' manufacturing resources and cause delays in manufacturing and shipment of our products;
- manufacturing quality control or process control issues, including reduced control over manufacturing yields, production schedules and product quality;

- potential misappropriation of our intellectual property;
- disruption of transportation to and from Asia where most of our foundries and subcontractors are located;
- political, civil, labor or economic instability;
- embargoes or other regulatory limitations affecting the availability of raw materials, equipment or changes in tax laws, tariffs, services and freight rates; and/or
- compliance with U.S., local or international regulatory requirements.

Other additional risks associated with subcontractors include:

- subcontractors imposing higher minimum order quantities for substrates;
- potential increase in assembly and test costs;
- our board level product volume may not be attractive to preferred manufacturing partners, which could result in higher pricing, extended lead times or having to qualify an alternative vendor;
- difficulties in selecting, qualifying and integrating new subcontractors;
- inventory and delivery management issues relating to hub arrangements;
- entry into “take-or-pay” agreements; and/or
- limited warranties from our subcontractors for products assembled and tested for us.

If we are unable to accurately forecast demand for our products, we may be unable to efficiently manage our inventory.

Due to the absence of substantial non-cancelable backlog, we typically plan our production and inventory levels based on customer forecasts, internal evaluation of customer demand and current backlog, which can fluctuate substantially. Due to a number of factors such as customer changes in delivery schedules and quantities actually purchased, cancellation of orders, distributor returns or price reductions, our backlog at any particular date is not necessarily indicative of actual sales for any succeeding period. The still unsettled, uncertain and weak economy may increase the risk of purchase order cancellations or delays, product returns and price reductions. We may not be able to meet our expected revenue levels or results of operations if there is a reduction in our order backlog for any particular period and we are unable to replace those anticipated sales during the same period. Our forecast accuracy can be adversely affected by a number of factors, including inaccurate forecasting by our customers, changes in market conditions, new part introductions by our competitors, loss of previous design wins, adverse changes in our scheduled product order mix and demand for our customers’ products or models. As a consequence of these factors and other inaccuracies inherent in forecasting, inventory imbalances periodically occur that result in surplus amounts of some of our products and shortages of others. Such shortages can adversely impact customer relations and surpluses can result in larger-than-desired inventory levels, either of which can materially and adversely impact our business, financial condition and results of operations. Due to the unpredictability of global economic conditions and increased difficulty in forecasting demand for our products, we could experience an increase in inventory levels.

In instances where we have hub agreements with certain vendors, the inability of our partners to provide accurate and timely information regarding inventory and related shipments of the inventory may impact our ability to maintain the proper amount of inventory at the hubs, forecast usage of the inventory and record accurate revenue recognition which could materially and adversely impact our business, financial conditions and the results of operations.

If our distributors or sales representatives stop selling or fail to successfully promote our products, our business, financial condition and results of operations could be materially and adversely impacted.

We sell many of our products through sales representatives and distributors, many of which sell directly to OEMs, contract manufacturers and end customers. Our non-exclusive distributors and sales representatives may carry our competitors' products, which could adversely impact or limit sales of our products. Additionally, they could reduce or discontinue sales of our products or may not devote the resources necessary to sell our products in the volumes and within the time frames that we expect. Our agreements with distributors contain limited provisions for return of our products, including stock rotations whereby distributors may return a percentage of their purchases from us based upon a percentage of their most recent three or six months of shipments. In addition, in certain circumstances upon termination of the distributor relationship, distributors may return some portion of their prior purchases. The loss of business from any of our significant distributors or the delay of significant orders from any of them, even if only temporary, could materially and adversely impact our business, financial conditions and results of operations.

Moreover, we depend on the continued viability and financial resources of these distributors and sales representatives, some of which are small organizations with limited working capital. In turn, these distributors and sales representatives are subject to general economic and semiconductor industry conditions. We believe that our success will continue to depend on these distributors and sales representatives. If some or all of our distributors and sales representatives experience financial difficulties, or otherwise become unable or unwilling to promote and sell our products, our business, financial condition and results of operations could be materially and adversely impacted.

Certain of our distributors may rely heavily on the availability of short-term capital at reasonable rates to fund their ongoing operations. If this capital is not available, or is only available on onerous terms, certain distributors may not be able to pay for inventory received or we may experience a reduction in orders from these distributors, which would likely cause our revenue to decline and materially and adversely impact our business, financial condition and results of operations.

We depend in part on the continued service of our key engineering and executive management personnel and our ability to identify, hire, incentivize and retain qualified personnel. If we lose key employees or fail to identify, hire, incentivize and retain these individuals, our business, financial condition and results of operations could be materially and adversely impacted.

Our future success depends, in part, on the continued service of our key design, engineering, technical, sales, marketing and executive personnel and our ability to identify, hire, motivate and retain such qualified personnel, as well as effectively and quickly replace key personnel with qualified successors with competitive incentive compensation packages.

Under certain circumstances, including a company acquisition, significant restructuring or business downturn, current and prospective employees may experience uncertainty about their future roles with us. Volatility or lack of positive performance in our stock price and the ability or willingness to offer meaningful competitive equity compensation and incentive plans or in amounts consistent with market practices may also adversely affect our ability to retain and incentivize key employees. In addition, competitors may recruit our employees, as is common in the high tech sector. If we are unable to retain personnel that are critical to our future operations, we could face disruptions in operations, loss of existing customers, loss of key information, expertise or know-how, unanticipated additional recruiting and training costs, and potentially higher compensation costs.

Competition for skilled employees having specialized technical capabilities and industry-specific expertise is intense and continues to be a considerable risk inherent in the markets in which we compete. At times, competition for such employees has been particularly notable in California and People's Republic of China ("PRC"). Further, the PRC historically has different managing principles from Western style management and financial reporting concepts and practices, as well as different banking, computer and other control systems, making the successful identification and employment of qualified personnel particularly important, and hiring and retaining a sufficient number of such qualified employees may be difficult. As a result of these factors, we may experience difficulty in establishing and maintaining management, legal and financial controls, collecting financial data, books of account and records and instituting business practices that meet Western standards and regulations, which could materially and adversely impact our business, financial condition and results of operations.

Our employees are employed "at-will", which means that they can terminate their employment at any time. Our international locations are subject to local labor laws, which are often significantly different from U.S. labor laws and which may under certain conditions, result in large separation costs upon termination. Further, employing individuals in international locations is subject to other risks inherent in international operations, such as those discussed with respect to international sales below, among others. The failure to recruit and retain, as necessary, key design engineers and technical, sales, marketing and executive personnel could materially and adversely impact our business, financial condition and results of operations.

Stock-based awards are critical to our ability to recruit, retain and motivate highly skilled talent. In making employment decisions, particularly in the semiconductor industry and the geographies where our employees are located, a key consideration of current and potential employees is the value of the equity awards they receive in connection with their employment. If we are unable to offer employment packages with a competitive equity award component, our ability to attract highly skilled employees would be harmed. In addition, volatility in our stock price could result in a stock option's exercise price exceeding the market value of our common stock or a deterioration in the value of restricted stock units granted, thus lessening the effectiveness of stock-based awards for retaining and motivating employees. Similarly, decreases in the number of unvested in-the-money stock options held by existing employees, whether because our stock price has declined, options have vested, or because the size of follow-on option grants has decreased, may make it more difficult to retain and motivate employees. Consequently, we may not continue to successfully attract and retain key employees, which could have an adverse effect on our business, financial condition and results of operations.

We have made, and in the future may make, acquisitions and significant strategic equity investments, which may involve a number of risks. If we are unable to address these risks successfully, such acquisitions and investments could have a material adverse effect on our business, financial condition and results of operations.

We have undertaken a number of strategic acquisitions, have made strategic investments in the past, and may make further strategic acquisitions and investments from time to time in the future. The risks involved with these acquisitions and investments include:

- the possibility that we may not receive a favorable return on our investment or incur losses from our investment or the original investment may become impaired;
- revenues or synergies could fall below projections or fail to materialize as assumed;
- failure to satisfy or set effective strategic objectives;
- the possibility of litigation arising from or in connection with these acquisitions;
- our assumption of known or unknown liabilities or other unanticipated events or circumstances; and/or
- the diversion of management's attention from day-to-day operations of the business and the resulting potential disruptions to the ongoing business.

Additional risks involved with acquisitions include:

- difficulties in integrating and managing various functional areas such as sales, engineering, marketing, and operations;
- difficulties in incorporating or leveraging acquired technologies and intellectual property rights in new products;
- difficulties or delays in the transfer of product manufacturing flows and supply chains of acquired businesses;
- failure to retain and integrate key personnel;
- failure to retain and maintain relationships with existing customers, distributors, channel partners and other parties;
- failure to manage and operate multiple geographic locations both effectively and efficiently;
- failure to coordinate research and development activities to enhance and develop new products and services in a timely manner that optimize the assets and resources of the combined company;
- difficulties in creating uniform standards, controls (including internal control over financial reporting), procedures, policies and information systems;
- unexpected capital equipment outlays and continuing expenses related to technical and operational integration;
- difficulties in entering markets or retaining current markets in which we have limited or no direct prior experience or where competitors in such markets may have stronger market positions;
- insufficient revenues to offset increased expenses associated with acquisitions;
- under-performance problems with an acquired company;

- issuance of common stock that would dilute our current stockholders' percentage ownership;
- reduction in liquidity and interest income on lower cash balances;
- recording of goodwill and intangible assets that will be subject to periodic impairment testing and potential impairment charges against our future earnings;
- incurring amortization expenses related to certain intangible assets; and/or
- incurring large and immediate write-offs of assets.

Strategic equity investments also involve risks associated with third parties managing the funds and the risk of poor strategic choices or execution of strategic or operating plans.

We may not address these risks successfully without substantial expense, delay or other operational or financial problems, or at all. Any delays or other such operations or financial problems could materially and adversely impact our business, financial condition and results of operations.

Our business may be materially and adversely impacted if we fail to effectively utilize and incorporate acquired technologies.

We have acquired and may in the future acquire intellectual property in order to expand our serviceable markets, accelerate our time to market, and to accelerate to gain market share for new and existing products. Acquisitions of intellectual property may involve risks relating to, among other things, valuation of innovative capabilities, successful technical integration into new products, loss of key technical personnel, compliance with contractual obligations, market acceptance of new product features or capabilities, and achievement of planned return on investment. Successful technical integration in particular requires a variety of capabilities that we may not currently have, such as available technical staff with sufficient time to devote to integration, the requisite skills to understand the acquired technology and the necessary support tools to effectively utilize the technology. The timely and efficient integration of acquired technology may be adversely impacted by inherent design deficiencies or application requirements. The potential failure of or delay in product introduction utilizing acquired intellectual property could lead to an impairment of capitalized intellectual property acquisition costs, which could materially and adversely impact our business, financial condition and results of operations.

Because a significant portion of our total assets were, and may again be with future potential acquisitions, represented by goodwill and other intangible assets, which are subject to mandatory annual impairment evaluations, we could be required to write-off some or all of our goodwill and other intangible assets, which could materially and adversely impact our business, financial condition and results of operations.

A significant portion of the purchase price for any business combination may be allocated to identifiable tangible and intangible assets and assumed liabilities based on estimated fair values at the date of consummation. As required by U.S. Generally Accepted Accounting Principles ("GAAP"), the excess purchase price, if any, over the fair value of these assets less liabilities typically would be allocated to goodwill. We evaluate goodwill for impairment on an annual basis or whenever events and changes in circumstances suggest that the carrying amount may not be recoverable. We typically conduct our annual analysis of our goodwill at the reporting unit level in the fourth quarter of our fiscal year.

The assessment of goodwill and other intangible assets impairment is a subjective process. Estimations and assumptions regarding the number of reporting units, future performance, results of our operations and comparability of our market capitalization and net book value will be used. Changes in estimates and assumptions could impact fair value resulting in an impairment, which could materially and adversely impact our business, financial condition and results of operations.

Because some of our integrated circuit and board level products have lengthy sales cycles, we may experience substantial delays between incurring expenses related to product development and the revenue derived from these products.

A portion of our revenue is derived from selling integrated circuits and board level products to end customer equipment vendors. Due to their product development cycle, we have typically experienced at least an eighteen-month time lapse between our initial contact with a customer and realizing volume shipments. In such instances, we first work with customers to achieve a design win, which may take six months or longer. Our customers then complete their design, test and evaluation process and begin to ramp-up production, a period which typically lasts an additional six months. The customers of equipment manufacturers may also require a period of time for testing and evaluation, which may cause further delays. As a result, a significant period of time may elapse between our research and development efforts and realization of revenue, if any, from volume purchasing of our products by our customers. Due to the length of the end customer equipment vendors' product development cycle, the risks of project cancellation by our customers, price erosion or volume reduction are common aspects of such engagements.

The complexity of our products may lead to errors, defects and bugs, which could subject us to significant costs or damages and adversely affect market acceptance of our products.

Although we, our customers and our suppliers rigorously test our products, they may contain undetected errors, performance weaknesses, defects or bugs when first introduced, as new versions are released when manufacturing or process changes are made. If any of our products contain design or production defects, or reliability issues, quality or compatibility problems that are significant to our customers, our reputation may be damaged and customers may be reluctant to continue to design in or buy our products, which could adversely affect our ability to retain and attract new customers. In addition, these defects or bugs could interrupt or delay sales of affected products, which could materially and adversely affect our business, financial condition and results of operations.

If defects or bugs are discovered after commencement of commercial production, we may be required to make significant expenditures of capital and other resources to resolve the problems. This could result in significant additional development costs and the diversion of technical and other resources from our other business development efforts. We could also incur significant costs to repair or replace defective products or may agree to be liable for certain damages incurred. These costs or damages could have a material adverse effect on our business, financial condition and results of operations.

If we are unable to compete effectively with existing or new competitors, we will experience fewer customer orders, reduced revenues, reduced gross margins and lost market share.

We compete in markets that are intensely competitive, and which are subject to both rapid technological change, continued price erosion and changing business terms with regard to risk allocation. Our competitors include many large domestic and foreign companies that may have substantially greater financial, market share, technical and management resources, name recognition and leverage than we have. As a result, they may be able to adapt more quickly to new or emerging technologies and changes in customer requirements or to devote greater resources to promote the sale of their products.

We have experienced increased competition at the design stage, where customers evaluate alternative solutions based on a number of factors, including price, performance, product features, technologies, and availability of long-term product supply and/or roadmap guarantee. Additionally, we experience, and may in the future experience, in some cases, severe pressure on pricing from competitors or on-going cost reduction expectations from customers. Such circumstances may make some of our products unattractive due to price or performance measures and result in the loss of our design opportunities or a decrease in our revenue and margins.

Also, competition from new companies, including those from emerging economy countries, with significantly lower costs could affect our selling price and gross margins. In addition, if competitors in Asia continue to reduce prices on commodity products, it would adversely affect our ability to compete effectively in that region. Specifically, we have licensed rights to a supplier in China to market our commodity connectivity products, which could reduce our sales in the future should they become a meaningful competitor. Loss of competitive position could result in price reductions, fewer customer orders, reduced revenues, reduced gross margins and loss of market share, any of which would adversely affect our operating results and financial condition.

Furthermore, many of our existing and potential customers internally develop solutions which attempt to perform all or a portion of the functions performed by our products. To remain competitive, we continue to evaluate our manufacturing operations for opportunities for additional cost savings and technological improvements. If we or our contract partners are unable to successfully implement new process technologies and to achieve volume production of new products at acceptable yields, our business, financial condition and results of operations may be materially and adversely affected.

Our stock price is volatile.

The market price of our common stock has fluctuated significantly at times. In the future, the market price of our common stock could be subject to significant fluctuations due to, among other reasons:

- our anticipated or actual operating results;
- announcements or introductions of new products by us or our competitors;
- technological innovations by us or our competitors;
- investor perception of the semiconductor sector;
- loss of or changes to key executives;

- product delays or setbacks by us, our customers or our competitors;
- potential supply disruptions;
- sales channel interruptions;
- concentration of sales among a small number of customers;
- conditions in our customers' markets and the semiconductor markets;
- the commencement and/or results of litigation;
- changes in estimates of our performance by securities analysts;
- decreases in the value of our investments or long-lived assets, thereby requiring an asset impairment charge against earnings;
- repurchasing shares of our common stock;
- announcements of merger or acquisition transactions; and/or
- general global economic and capital market conditions.

In the past, securities and class action litigation has been brought against companies following periods of volatility in the market prices of their securities. We may be the target of one or more of these class action suits, which could result in significant costs and divert management's attention, thereby materially and adversely impacting our business, financial condition and results of operations.

In addition, at times the stock market has experienced extreme price, volume and value fluctuations that affect the market prices of the stock of many high technology companies, including semiconductor companies, that are unrelated or disproportionate to the operating performance of those companies. Any such fluctuations may harm the market price of our common stock.

Occasionally, we enter into agreements that expose us to potential damages that exceed the value of the agreement.

We have given certain customers increased indemnification protection for product deficiencies or intellectual property infringement that is in excess of our standard limited warranty and indemnification provisions and could result in costs that are in excess of the original contract value. In an attempt to limit this liability, we have purchased insurance coverage to partially offset some of these potential additional costs; however, our insurance coverage could be insufficient in terms of amount and/or coverage to prevent us from suffering material losses if the indemnification amounts are large enough or if there are coverage issues.

As of September 29, 2013, affiliates of Future, Alonim Investments Inc. and two of its affiliates (collectively "Alonim"), beneficially own approximately 16% of our common stock and Soros Fund Management LLC, as principal investment manager for Quantum Partners LP ("Soros"), beneficially owns approximately 13% of our common stock. As such, Alonim and Soros are our largest stockholders. These substantial ownership positions provide the opportunity for Alonim and Soros to significantly influence matters requiring stockholder approval, which may or may not be in our best interests or the interest of our other stockholders. In addition, Alonim is an affiliate of Future and an executive officer of Future is on our board of directors, which could lead to actual or perceived influence from Future.

Alonim and Soros each own a significant percentage of our outstanding shares. Due to such ownership, Alonim and Soros, acting independently or jointly, have not in the past, but may in the future, exert strong influence over actions requiring the approval of our stockholders, including the election of directors, many types of change of control transactions and amendments to our charter documents. Further, if one of these stockholders were to sell or even propose to sell a large number of their shares, the market price of our common stock could decline significantly.

Although we have no reason to believe it to be the case, the interests of these significant stockholders could conflict with our best interests or the interests of the other stockholders. For example, the significant ownership percentages of these two stockholders could have the effect of delaying or preventing a change of control or otherwise discouraging a potential acquirer from obtaining control of us, regardless of whether the change of control is supported by us and our other stockholders. Conversely, by virtue of their percentage ownership of our stock, Alonim and/or Soros could facilitate a takeover transaction that our board of directors and/or other stockholders did not approve.

Further, Alonim is an affiliate of Future, our largest distributor, and Pierre Guilbault, executive vice president and chief financial officer of Future, is a member of our board of directors. These relationships could also result in actual or perceived attempts to influence management or take actions beneficial to Future which may or may not be beneficial to us or in our best interests. Future could attempt to obtain terms and conditions more favorable than those we would typically provide to other distributors because of its relationship with us. Any such actual or perceived preferential treatment could materially and adversely affect our business, financial condition and results of operations.

Earthquakes and other natural disasters, may damage our facilities or those of our suppliers and customers.

The occurrence of natural disasters in certain regions, such as the recent natural disasters in Asia, could adversely impact our manufacturing and supply chain, our ability to deliver products on a timely basis (or at all) to our customers and the cost of or demand for our products. Our corporate headquarters in Fremont, California is located near major earthquake faults that have experienced seismic activity and is approximately 170 miles from a nuclear power plant. In addition, some of our other offices, customers and suppliers are in locations, which may be subject to similar natural disasters. In the event of a major earthquake or other natural disaster near our offices, our operations could be disrupted. Similarly, a major earthquake or other natural disaster, such as the earthquakes in Japan or flooding in Thailand, affecting one or more of our major customers or suppliers could adversely impact the operations of those affected, which could disrupt the supply or sales of our products and harm our business, financial condition and results of operations.

Any error in our sell-through revenue recognition judgment or estimates could lead to inaccurate reporting of our net sales, gross profit, deferred income and allowances on sales to distributors and net income.

Sell-through revenue recognition is highly dependent on receiving pertinent and accurate data from our distributors in a timely fashion. Distributors provide us periodic data regarding the product, price, quantity, and end customer when products are resold as well as the quantities of our products they still have in stock. We must use estimates and apply judgment to reconcile distributors' reported inventories to their activities. Any error in our judgment could lead to inaccurate reporting of our net sales, gross profit, deferred income and allowances on sales to distributors and net income, which could have an adverse effect on our business, financial condition and results of operations.

We may be unable to protect our intellectual property rights, which could harm our competitive position.

Our ability to compete is affected by our ability to protect our intellectual property rights. We rely on a combination of patents, trademarks, copyrights, mask work registrations, trade secrets, confidentiality procedures and non-disclosure and licensing arrangements to protect our intellectual property rights. Despite these efforts, we may be unable to protect our proprietary information. Such intellectual property rights may not be recognized or if recognized, may not be commercially feasible to enforce. Moreover, our competitors may independently develop technology that is substantially similar or superior to our technology.

More specifically, our pending patent applications or any future applications may not be approved, and any issued patents may not provide us with competitive advantages or may be challenged by third parties. If challenged, our patents may be found to be invalid or unenforceable, and the patents of others may have an adverse effect on our ability to do business. Furthermore, others may independently develop similar products or processes, duplicate our products or processes or design around any patents that may be issued to us.

We could be required to pay substantial damages or could be subject to various equitable remedies if it were proven that we infringed the intellectual property rights of others.

As a general matter, semiconductor companies may from time to time become involved with ongoing litigation regarding patents and other intellectual property rights. If a third party were to prove that our technology infringed its intellectual property rights, we could be required to pay substantial damages for past infringement and could be required to pay license fees or royalties on future sales of our products. If we were required to pay such license fees whenever we sold our products, such fees could exceed our revenue. In addition, if it was proven that we willfully infringed a third party's proprietary rights, we could be held liable for three times the amount of the damages that we would otherwise have to pay. Such intellectual property litigation could also require us to:

- stop selling, incorporating or using our products that use the infringed intellectual property;
- obtain a license to make, sell or use the relevant technology from the owner of the infringed intellectual property, which license may not be available on commercially reasonable terms, if at all; and/or
- redesign our products so as not to use the infringed intellectual property, which may not be technically or commercially feasible.

The defense of infringement claims and lawsuits, regardless of their outcome, would likely be expensive and could require a significant portion of management's time. In addition, rather than litigating an infringement matter, we may determine that it is in our best interests to settle the matter. Terms of a settlement may include the payment of damages and our agreement to license technology in exchange for a license fee and ongoing royalties. These fees could be substantial. If we were required to pay damages or otherwise became subject to equitable remedies, our business, financial condition and results of operations would suffer. Similarly, if we were required to pay license fees to third parties based on a successful infringement claim brought against us, such fees could exceed our revenue.

Our results of operations could vary as a result of the methods, estimations and judgments we use in applying our accounting policies.

The methods, estimates and judgments we use in applying our accounting policies have a significant impact on our results of operations. Such methods, estimates and judgments are, by their nature, subject to substantial risks, uncertainties, assumptions and changes in rulemaking by regulatory bodies; and factors may arise over time that lead us to change our methods, estimates, and judgments. Changes in those methods, estimates and judgments could materially and adversely impact our business, financial condition and results of operations.

Our revenue reporting is highly dependent on receiving pertinent and accurate data from our distributors in a timely fashion. Distributors provide us periodic data regarding the product, price, quantity and end customer when products are resold as well as the quantities of our products they still have in stock. We must use estimates and apply judgment to reconcile distributors' reported inventories to their activities. Any error in our judgment could lead to inaccurate reporting of our net sales, gross profit, deferred income and allowances on sales to distributors and net income.

We estimate the fair value of stock options on the date of grant using the Black-Scholes option-pricing model. The assumptions used in calculating the fair value of stock-based compensation represent our estimates, but these estimates involve inherent uncertainties and the application of management judgments, which include the expected term of the stock-based awards, stock price volatility and forfeiture rates. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future.

On an on-going basis, we use estimates and judgment to evaluate valuation of inventories, income taxes, goodwill and long-lived assets in preparing our condensed consolidated financial statements. Actual results could differ from these estimates and material effects on operating results and financial position may result.

The final determination of our income tax liability may be materially different from our income tax provision, which could have an adverse effect on our results of operations.

Our future effective tax rates may be adversely affected by a number of factors including:

- the jurisdictions in which profits are determined to be earned and taxed;
- the resolution of issues arising from tax audits with various tax authorities;
- changes in the valuation of our deferred tax assets and liabilities;
- adjustments to estimated taxes upon finalization of various tax returns;
- increases in expenses not deductible for tax purposes, including write-offs of acquired in-process research and development and impairment of goodwill in connection with acquisitions;
- changes in available tax credits;
- changes in stock-based compensation expense;
- changes in tax laws or the interpretation of such tax laws and changes in generally accepted accounting principles; and/or
- the repatriation of non-U.S. earnings for which we have not previously provided for U.S. taxes.

Any significant increase in our future effective tax rates could adversely impact net income for future periods. In addition, the U.S. Internal Revenue Service ("IRS") and other tax authorities regularly examine our income tax returns. Our business, financial condition and results of operations could be materially and adversely impacted if these assessments or any other assessments resulting from the examination of our income tax returns by the IRS or other taxing authorities are not resolved in our favor.

We have acquired significant Net Operating Loss ("NOL") carryforwards as a result of our acquisitions. The utilization of acquired NOL carryforwards is subject to the IRS's complex limitation rules that carry significant burdens of proof. Limitations include certain levels of a change in ownership. As a publicly traded company, such change in ownership may be out of our control. Our eventual ability to utilize our estimated NOL carryforwards is subject to IRS scrutiny and our future results may not benefit as a result of potential unfavorable IRS rulings.

Our engagement with foreign customers could cause fluctuations in our operating results, which could materially and adversely impact our business, financial condition and results of operations.

International sales have accounted for, and will likely continue to account for a significant portion of our revenues, which subjects us to the following risks, among others:

- changes in or compliance with regulatory requirements;
- tariffs, embargoes, directives and other trade barriers which impact our or our customers' business operations;
- timing and availability of export or import licenses;
- disruption of services due to political, civil, labor or economic instability;
- disruption of services due to natural disasters outside the United States;
- disruptions to customer operations outside the United States due to the outbreak of communicable diseases;
- difficulties in accounts receivable collections;
- difficulties in staffing and managing foreign subsidiary and branch operations;
- difficulties in managing sales channel partners;
- difficulties in obtaining governmental approvals for our products;
- limited intellectual property protection;
- foreign currency exchange fluctuations;
- the burden of complying with foreign laws and treaties;
- contractual or indemnity issues that are materially different from our standard sales terms; and/or
- potentially adverse tax consequences.

In addition, because sales of our products have been denominated primarily in U.S. dollars, increases in the value of the U.S. dollar as compared with local currencies could make our products more expensive to customers in the local currency of a particular country resulting in pricing pressures on our products. Increased international activity in the future may result in foreign currency denominated sales. Furthermore, because some of our customers' purchase orders and agreements are governed by foreign laws, we may be limited in our ability, or it may be too costly for us, to enforce our rights under these agreements and to collect damages, if awarded.

We may be exposed to additional credit risk as a result of the addition of significant direct customers through acquisitions.

From time to time one of our customers has contributed more than 10% of our quarterly net sales. A number of our customers are OEMs, or the manufacturing subcontractors of OEMs, which might result in an increase in concentrated credit risk with respect to our trade receivables and therefore, if a large customer were to be unable to pay, it could materially and adversely impact our business, financial condition and results of operations.

Compliance with new regulations regarding the use of conflict minerals could adversely impact the supply and cost of certain metals used in manufacturing our products.

In August 2012, the U.S. Securities and Exchange Commission ("SEC") issued final rules for compliance with Section 1502 of the Dodd-Frank Act, and outlined what publicly-traded companies in the U.S. have to disclose regarding their use of conflict minerals in their products. According to the rule, companies that utilize any of the 3TG (tin, tantalum, tungsten and gold) minerals in their products need to conduct a reasonable country of origin inquiry to determine if the minerals are coming from the conflict zones in and around the Democratic Republic of Congo. The first filings are due May 31, 2014 for calendar year 2013. The implementation of these new regulations may limit the sourcing and availability of some metals used in the manufacture of our products and may affect our ability to obtain products in sufficient quantities or at competitive prices.

ITEM 6. EXHIBITS

(a) Exhibits required by Item 601 of Regulation S-K

See the Exhibit Index, which follows the signature page to this Quarterly Report on Form 10-Q.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Quarterly Report on Form 10-Q of Exar Corporation to be signed on its behalf by the undersigned thereunto duly authorized.

		EXAR CORPORATION *(Registrant)*
November 7, 2013	By	/s/ Ryan A. Benton
		Ryan A. Benton Senior Vice President and Chief Financial Officer (On the Registrant's Behalf and as Principal Financial and Accounting Officer)

INDEX TO EXHIBITS

Exhibit Number	Exhibit	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
3.1	Restated Certificate of Incorporation of Exar Corporation	8-K	0-14225	3.3	9/17/2010	
3.2	Bylaws of Exar Corporation	8-K	0-14225	3.1	3/16/2012	
3.3	Employment Agreement between the Company and Ryan Benton, dated September 30, 2013					X
3.4	New Non-Employee Director Option Agreement					X
3.5	New Non-Employee Director RSU Agreement					X
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a)					X
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a)					X
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

CONFIDENTIAL

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is made and entered into as of September 27, 2013 (the 4 day 8K filing date will start), by and between Exar Corporation, a Delaware corporation (the "Company"), and Ryan A. Benton, an individual (the "Executive").

RECITALS

A. The Company desires that the Executive continue to be employed by the Company as its Chief Financial Officer to carry out the duties and responsibilities described below, all on the terms and conditions hereinafter set forth, effective as of September 27, 2013 (the "Effective Date").

B. The Executive desires to continue such employment on such terms and conditions.

C. This Agreement shall govern the employment relationship between the Executive and the Company from and after the Effective Date and supersedes and negates all previous agreements with respect to such relationship.

D. The Compensation Committee and the Board of Directors of the Company have approved this Agreement.

NOW, THEREFORE, in consideration of the above recitals incorporated herein and the mutual covenants and promises contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby expressly acknowledged, the parties agree as follows:

1. Retention and Duties.

1.1 Retention. As of the Effective Date, the Company does hereby engage and employ the Executive for the Period of Employment (as defined in Section 2) on the terms and conditions expressly set forth in this Agreement. As of the Effective Date, the Executive does hereby accept and agree to such, engagement and employment, on the terms and conditions expressly set forth in this Agreement.

1.2 Duties. During the Period of Employment, the Executive shall serve the Company as its Chief Financial Officer and shall have the powers, duties and obligations of management usually vested in the office of the chief financial officer of a corporation, subject to the directives of and reporting directly to the Company's President and Chief Executive Officer. The Executive shall comply with the corporate policies of the Company as they are in effect from time to time throughout the Period of Employment (including, without limitation, the Company's employee handbook, personnel policies, and business conduct and ethics policies, as they may change from time to time).

1.3 No Other Employment; Minimum Time Commitment. During the Period of Employment, the Executive shall both (i) devote substantially all of the Executive's business time, energy and skill to the performance of the Executive's duties for the Company, and

(ii) hold no other employment or directorship without the prior written consent of the Company. Nothing in this Section 1.3 shall be construed as preventing the Executive from engaging in the investment of his personal assets. In addition, the Executive shall avoid all activities and other actions that might conflict with, or that might reasonably appear to conflict with, the interests of the Company.

1.4 No Breach of Contract. The Executive hereby represents to the Company that: (i) the execution and delivery of this Agreement by the Executive and the Company and the performance by the Executive of the Executive's duties hereunder shall not constitute a breach of, or otherwise contravene, the terms of any other agreement or policy to which the Executive is a party or otherwise bound; (ii) the Executive has no information (including, without limitation, confidential information and trade secrets) relating to any other person or entity which would prevent, or be violated by, the Executive entering into this Agreement or carrying out his duties hereunder; and (iii) that, except as set forth on Exhibit A hereto, the Executive, acting on his own behalf, is not bound by any confidentiality, trade secret or similar agreement with any other person or entity.

1.5 Location. The Executive acknowledges that the Company's principal executive offices are currently located in Fremont, California. The Executive's principal place of employment shall be the Company's principal executive offices. The Executive agrees that he will be regularly present at the Company's principal executive offices. The Executive acknowledges that he may be required to travel from time to time in the course of performing his duties for the Company.

1.6 Indemnification Agreement. On December 13, 2012 the Company and the Executive have executed and delivered the Indemnification Agreement attached hereto as Exhibit B (the "Indemnification Agreement").

2. Period of Employment. The "Period of Employment" shall be a period of four (4) years commencing on the Effective Date and ending at the close of business on the four-year anniversary of the Effective Date, subject to earlier termination in accordance with the provisions of Section 5 below (the "Termination Date").

3. Compensation.

3.1 Base Salary. The Executive's base salary (the "Base Salary") shall be paid in accordance with the Company's regular payroll practices in effect from time to time, but not less frequently than in monthly installments. Effective retroactively to September 9, 2013 the Executive's Base Salary shall be at an annualized rate of Three Hundred Thirty-five Thousand Dollars ($335,000). The CEO will review the Executive's Base Salary at least annually and may recommend to the Compensation Committee any adjustment. The Compensation Committee in its sole discretion may approve any adjustment to the Executive's Base Salary from the rate then in effect based on such review; provided that the Executive's Base Salary shall not be less than the Base Salary set forth herein without the Executive's consent.

3.2 Incentive Bonus. During the Period of Employment the Executive shall be eligible to receive an annual incentive bonus ("Incentive Bonus"). The Executive's target Incentive Bonus amount for the fiscal years during the Period of Employment, commencing with the Company's

2014 fiscal year, shall be 50% of the Executive's Base Salary, unless the Board or the Compensation Committee of the Board (the "Compensation Committee") sets a higher target Incentive Bonus for those years. The Executive's Incentive Bonus for the Company's 2014 fiscal year shall be payable per the terms of the Fiscal Year 2014 Management Incentive Program, with the target number of RSUs subject to such award (the "Target RSUs") to be determined by dividing (i) $285,000 by (ii) the closing price of a share of the Company's common determined by the Management Incentive Plan. The Target RSUs shall be eligible to vest on the date that the Compensation Committee determines the vesting of RSU awards granted to the Company's senior executives generally under the Company's Fiscal Year 2014 Management Incentive Program (the "Determination Date") in accordance with the Company's Fiscal Year 2014 Management Incentive Program (subject to the Executive's continued employment with the Company through the Determination Date) such that if the Compensation Committee determines that awards granted under the program shall vest based on Company performance as to a percentage of the target number of units subject to such awards that is greater than one hundred percent (100%) (The "Incentive Plan Vesting Percentage"), the Executive shall vest in an additional number of RSUs on the Determination Date so that the total number of the Executive's vested RSUs under the award shall equal the Target RSUs multiplied by the Incentive Plan Vesting Percentage. All payments shall be made promptly and in accordance with the terms of the fiscal year 2014 Management Incentive Program and in all events within sixty days after the applicable vesting date. Any Target RSUs that are outstanding on the Determination Date and not vested after giving effect to the foregoing provisions shall terminate on the Determination Date. For each fiscal year during the Period of Employment after the 2014 fiscal year, the Executive's Incentive Bonus shall be in an amount recommended by the CEO and approved by the Compensation Committee in its sole discretion. The Executive may participate in recommending his individual performance goals and any corporate goals upon which his Incentive Bonus is based for each fiscal year, provided that the CEO will set such goals with the approval of the Compensation Committee. Except as otherwise provided in any annual incentive program adopted by the Compensation Committee in which the Executive participates, any Incentive Bonus shall be paid, subject to applicable withholdings and authorized deductions, as soon as practicable after the end of such fiscal year (and in all events within the applicable period prescribed for the payment of "short-term deferrals" as provided in Treasury Regulation Section 1.409A-1(b)(4)).

If the Company files an accounting restatement due to a material misstatement related to any fiscal period during the Executive's employment with the Company, as a result of willful misconduct (whether or not by the Executive), with any financial reporting requirement under the U.S. securities laws, the Company may require the Executive to reimburse the Company for any bonus or other incentive-based or equity-based compensation received by the Executive from the Company during the 12-month period following the first public issuance or filing with the U.S. Securities and Exchange Commission (whichever first occurs) of the financial document embodying such material misstatement and any profits realized from the sale of securities of the Company during that 12-month period by the Executive. The provision in the immediately preceding sentence is intended to follow Section 304 of the Sarbanes-Oxley Act of 2002, and to the extent such Section 304 is hereafter amended or modified (whether by legislative, judicial or administrative action) to provide for reduced obligations of the Executive thereunder, the immediately preceding sentence shall be automatically similarly amended or modified, without the need of a written amendment hereof. In addition to the foregoing, any incentive compensation paid to the Executive shall be subject to the terms of any recoupment, claw-back or similar policy adopted by the Company as it may be in effect from time to time, as well as any similar provisions of applicable law.

3.3 Equity Awards.

(a) Stock Option. As approved by the Compensation Committee, the Company has granted to the Executive an option (the "Option") to purchase 100,000 shares of the Company's Common Stock, such Option to be effective on the Effective Date. The exercise price per share for the Option will be equal to the closing price of a share of the Common Stock on October 1, 2013. Except as expressly set forth herein, the Option will vest as follows:

The Option will vest as to 25,000 of such shares on the first anniversary of the Grant Date, and as to 1/36th of the remaining 75,000, shares underlying the Option each month thereafter on the same day of the month as the Grant Date, subject in each case to the Executive's active and continuous service to the Company through the applicable vesting date, such that the Executive shall be fully vested in such portion of the Option shares after four years of active and continuous service to the Company from the Grant Date. The Option will be granted under the Company's 2006 Equity Incentive Plan (the "Plan") and shall be subject to such further terms and conditions as set forth in a written award agreement to be entered into by the Company and the Executive to evidence the award.

(b) Performance-RSU Award. As authorized by the Compensation Committee, the Company has granted to the Executive an award of 60,000 performance RSUs (the "RSU Award"). The RSU Award shall consist of three equal tranches of 20,000 RSUs (each, a "Tranche"), and will vest over three (3) years in each case as follows:

(i) With respect to the first Tranche, the Executive must be actively and continuously employed through the end of the 2017 fiscal year in order to vest one hundred percent (100%) (Hence 33.3% per year for fiscal 2015, 2016 and 2017) and the Company's Earnings Before Interest and Taxes determined on a non-GAAP basis as the Company has historically reported such amounts to investors during earnings calls ("EBIT") must meet or exceed 5% of the Company's Annual Operating Plan Revenue level for the 2014 fiscal year;

(ii) With respect to the second Tranche, the Executive must be actively and continuously employed through the end of the 2018 fiscal year in order to vest one hundred percent (100%) (Hence 33.3% per year for fiscal 2016, 2017 and 2018) and (A) the Company's EBIT for the 2015 fiscal year must be positive and equal to or greater than ten percent (10%) of the Company's Annual Operating Plan revenues ("AOP Revenue") level for the 2015 fiscal year and (B) the Company's revenue as determined in accordance with GAAP and as reported in the Company's financial statements ("Revenue") for the 2015 fiscal year must be equal to or greater than 103% of the Company's Revenue for fiscal year 2014;

(iii) With respect to the third Tranche, Executive must be actively and continuously employed through the end of the 2019 fiscal year in order to vest one hundred percent (100%) (Hence 33.3% per year for fiscal 2017, 2018 and 2019) and (A) the Company's EBIT for the 2016 fiscal year must be positive and equal to or greater than fifteen percent (15%) of the Company's AOP Revenue level for the 2016 fiscal year; and (B) the Company's Revenue for the

2016 fiscal year must be equal to or greater than 103% of the Company's Revenue for fiscal year 2015.

In each case, the Company's EBIT level, Revenue level and the vesting of any Tranche shall be determined by the Compensation Committee. If the performance goals for a particular fiscal year set forth above are not achieved, the Tranche of RSUs applicable to that fiscal year shall terminate as of the last day of that fiscal year. The RSU Award shall be granted under the Plan and shall be subject to such further terms and conditions as set forth in a written award agreement to be entered into by the Company and the Executive to evidence the award.

4. <u>Benefits</u>.

4.1 <u>Retirement, Welfare and Fringe Benefits</u>. During the Period of Employment, the Executive shall be entitled to participate in all employee pension and welfare benefit plans and programs, and fringe benefit plans and programs, made available by the Company to the Company's employees generally, in accordance with the eligibility and participation provisions of such plans and as such plans or programs may be in effect from time to time; provided, however, that the Executive shall not be entitled to a duplication of benefits or payments provided to the Executive pursuant to this Agreement.

4.2 <u>Reimbursement of Business Expenses</u>. The Company shall reimburse the Executive for all reasonable business expenses that the Executive incurs during the Period of Employment in connection with carrying out the Executive's duties for the Company, subject to the Company's expense reimbursement policies (including submission of any documentation of such expenses required by such policies) in effect from time to time and provided that in all events any such reimbursement shall be made not later than the end of the calendar year following the year in which the related expense was incurred.

4.3 <u>Vacations and Other Leave</u>. During the Period of Employment, the Executive shall accrue and be entitled to take paid vacation in accordance with the Company's vacation policies in effect from time to time. The Executive shall also be entitled to all other holiday and leave pay generally available to other executives of the Company.

5. <u>Termination</u>.

5.1 <u>Termination by the Company</u>. The Executive's employment by the Company, and the Period of Employment, may be terminated at any time by the Company: (i) with Cause (as defined in Section 5.5), or (ii) with no less than thirty (30) days advance notice to the Executive, without Cause, or (iii) in the event of the Executive's death (which shall occur automatically upon such death), or (iv) in the event that the Board determines in good faith that the Executive has a Disability (as defined in Section 5.5).

5.2 <u>Termination by the Executive</u>. The Executive's employment by the Company, and the Period of Employment, may be terminated by the Executive with no less than sixty (60) days advance notice to the Company; provided, however, that in the case of a termination for Good Reason, the Executive may provide immediate written notice upon the Company failing to cure the event that constitutes Good Reason after the Executive has provided the Company written notice of the event constituting Good Reason and at least a thirty (30)-day period to cure.

5.3 Benefits Upon Termination. If the Executive's employment by the Company is terminated during the Period of Employment for any reason by the Company or by the Executive, or upon or following the expiration of the Period of Employment (in any case, the date that the Executive's employment by the Company terminates is referred to herein as the "Severance Date"), the Company shall have no further obligation to make or provide to the Executive, and the Executive shall have no further right to receive or obtain from the Company, any payments or benefits except as follows:

(a) The Company shall pay the Executive (or, in the event of his death, the Executive's estate) any Accrued Obligations (as defined in Section 5.5);

(b) If, during the Period of Employment, the Executive's employment with the Company terminates as a result of an Involuntary Termination (as defined in Section 5.5), and subject to the Executive signing, delivering and not revoking a general release as set forth in Section 5.4, the Company shall provide the following severance benefits to the Executive:

(i) The Company shall pay the Executive (in addition to the Accrued Obligations) an amount equal to 100% of the Executive's Base Salary at the annual rate in effect on the Severance Date. Subject to Section 24.2, the Company shall pay such amount to the Executive in twelve (12) equal monthly installments, less tax withholdings and other authorized deductions, over a period of twelve (12) consecutive months, with the first installment payable in the month following the month in which the Executive's Separation from Service (as such term is defined in Section 5.5) occurs.

(ii) The Company shall pay to Executive a pro rata portion of the Incentive Bonus that Executive would have been entitled to receive had he remained employed through the end of the fiscal year in which he was terminated in accordance with the terms of Section 3.2 above (the "Pro Rata Bonus"). The Pro Rata Bonus will be calculated in the same manner and paid at the same time that the Incentive Bonus would have been paid in accordance with Section 3.2 above, provided, however, that the Pro Rata Bonus shall be determined by multiplying the Incentive Bonus that would have been paid to the Executive by a fraction in which the numerator is the number of days that Executive was actively employed by the Company during the applicable fiscal year and the denominator is 365.

(iii) The Company shall pay the cost of the Executive's premiums charged to continue medical coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act ("COBRA"), at the same or reasonably equivalent medical coverage for Executive (and, if applicable, Executive's eligible dependents) as in effect immediately prior to the Severance Date, for a period commencing on the Severance Date and ending on the earlier to occur of (A) the date the Executive becomes eligible for medical coverage with another employer and (B) the 12-month anniversary of the Severance Date. To the extent that the payment of any COBRA premiums pursuant to this Section 5.3(b)(ii) are taxable to Executive, any payment due to Executive pursuant to this section shall be paid to the Executive on or before the last day of the Executive's taxable year following the taxable year in which the related expense was incurred. The Executive's right to payment of such premiums is not subject to liquidation or exchange for another benefit and the amount of such benefits that the Executive receives in one taxable year shall not affect the amount of such benefits that the Executive receives in any other taxable year.

(iv) As to each then-outstanding equity award then held by the Executive that vests based solely on the Executive's continued service with the Company, the Executive shall vest in any portion of such award in which the Executive would have vested thereunder if the Executive's employment with the Company had continued for twelve (12) months after the date of such termination. As to each then-outstanding equity award held by the Executive that is subject to performance-based vesting requirements, the vesting of such award will continue to be governed by its terms, provided that for purposes of any service-based vesting requirement under such award, the Executive's employment with the Company will be deemed to have continued for twelve (12) months after the date of such termination.

(v) In the event that Executive's employment with the Company terminates as a result of an Involuntary Termination within twelve (12) months following a Change of Control, the Company shall, in addition to the amounts in (i) and (ii) of this Section 5.3(b), (A) pay the Executive an amount equal to a pro-rated portion of the Executive's target Incentive Bonus for the fiscal year in which the termination occurs (such payment to be made, subject to Section 24.2 and less tax withholdings and other authorized deductions, in a lump sum in the month following the month in which the Executive's Separation from Service occurs); and (B) the Executive shall fully vest in any unvested shares subject to any option, restricted stock, restricted stock unit or any other form of equity award granted by the Company to the Executive (and all future awards shall include vesting acceleration provisions consistent with this Section 5.3(b)(iv)).

For purposes of clarity, in the event the Executive's employment terminates upon the expiration of the Period of Employment, the Executive's outstanding options shall continue to be governed in accordance with their terms (including, without limitation, the terms applicable to a termination of the Executive's employment).

Notwithstanding the foregoing provisions of this Section 5.3, if the Executive materially breaches his obligations under the Confidentiality Agreement and/or Section 7 or 8 of this Agreement at any time, from and after the date of such breach, (x) the Executive will no longer be entitled to, and the Company will no longer be obligated to pay, any remaining unpaid portion of any benefits provided in Section 5.3(b), and (y) the Executive will no longer be entitled to, and the Company will no longer be obligated to make available to the Executive or the Executive's spouse or dependents any group health, life or other similar insurance plans or any payment in respect of such plans; provided, however, that if the Executive provides the release contemplated by Section 5.4, the Executive shall only be entitled to $5,000, which amount the parties agree is good and adequate consideration, in and of itself, for the Executive's release contemplated by Section 5.4.

The foregoing provisions of this Section 5.3 shall not affect: (i) the Executive's receipt of benefits otherwise due terminated employees under group insurance coverage consistent with the terms of the applicable Company welfare benefit plan; (ii) the Executive's rights under COBRA to continue participation in medical, dental, hospitalization and life insurance coverage; or (iii) the Executive's receipt of benefits otherwise due in accordance with the terms of the Company's 401(k) plan (if any). In no event shall the Company's obligations to the Executive exceed the sum of the Accrued Obligations, the benefits provided in Section 5.3(b), if applicable, and the benefits contemplated by this paragraph, regardless of the manner of the Executive's termination.

5.4 Releases; Exclusive Remedy.

(a) This Section 5.4 shall apply notwithstanding anything else contained in this Agreement or any stock option, restricted stock or other equity-based award agreement to the contrary. As a condition precedent to any Company obligation to the Executive pursuant to Section 5.3(b) or any obligation to accelerate vesting of any equity-based award in connection with the termination of the Executive's employment (including with respect to the Option), the Executive shall, upon or within twenty-one (21) days following his last day of employment with the Company, provide the Company with a valid, executed general release agreement in a form attached hereto as Exhibit C (with such changes as may be reasonably required to such form to help ensure its enforceability in light of any changes in applicable law), and such release agreement shall have not been revoked by the Executive pursuant to any revocation rights afforded by applicable law. The Company shall have no obligation to make any payment to the Executive pursuant to Section 5.3(b) (or otherwise accelerate the vesting of any equity-based award in the circumstances as otherwise contemplated by the applicable award agreement) unless and until the release agreement contemplated by this Section 5.4 becomes irrevocable by the Executive in accordance with all applicable laws, rules and regulations.

(b) The Executive agrees that the general release agreement described in Section 5.4(a) will require that the Executive acknowledge, as a condition to the payment of any benefits under Section 5.3(b), as applicable, that the payments contemplated by Section 5.3 (and any applicable acceleration of vesting of an equity-based award in accordance with the terms of such award in connection with the termination of the Executive's employment) shall constitute the exclusive and sole remedy for any termination of his employment, and the Executive will be required to covenant, as a condition to receiving any such payment (and any such accelerated vesting), not to assert or pursue any other remedies, at law or in equity, with respect to his employment or the termination of his employment. The Company and Executive acknowledge and agree that there is no duty of the Executive to mitigate damages under this Agreement. All amounts paid to the Executive pursuant to Section 5.3 shall be paid without regard to whether the Executive has taken or takes actions to mitigate damages.

5.5 Certain Defined Terms.

(a) As used herein, "Accrued Obligations" means:

(i) Any Base Salary that had accrued but had not been paid (including accrued and unpaid vacation time) on or before the Severance Date; and

(ii) Any reimbursement due to the Executive pursuant to Section 4.2 for expenses incurred by the Executive on or before the Severance Date.

(b) As used herein, "Cause" shall mean, as reasonably determined by the Board (excluding the Executive, if he is then a member of the Board), (i) any act of personal dishonesty taken by the Executive in connection with his responsibilities as an employee or director of the Company which is intended to result in substantial personal enrichment of the Executive or is reasonably likely to result in material harm to the Company, (ii) the Executive's conviction of a felony or any other crime which the Board reasonably believes has had or will have a material detrimental effect on the Company's reputation or business, (iii) a willful act by the Executive which constitutes misconduct and is materially injurious to the Company, (iv) Executive's unsatisfactory performance of his duties hereunder after receiving written notice from the Board and an opportunity to cure such performance deficiencies within 30 days of receiving such notice, or (v) continued willful violations by the Executive of the Executive's obligations to the Company after there has been delivered to the Executive a written demand for performance from the Company which describes the basis for the Company's belief that the Executive has willfully violated his obligations to the Company and at least thirty (30) days following delivery of such notice to cure any such violations if such violation is reasonably susceptible of cure.

(c) As used herein, "Change of Control" shall mean (i) any merger or consolidation of the Company in which the stockholders of the Company immediately prior to the transaction do not own more than fifty percent (50%) of the outstanding voting power of the Company (or its successor) immediately after such transaction, (ii) the sale of all or substantially all of the assets of the Company, or (iii) any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company) directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 of the Securities Exchange Act of 1934, as amended) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's stockholders.

(d) As used herein, "Disability" shall mean a physical or mental impairment which, as determined in good faith by the Board, renders the Executive unable to perform the essential functions of his employment with the Company, taking into consideration any reasonable accommodation that does not impose an undue hardship on the Company, for more than 120 days in any twelve (12)-month period, unless a longer period is required by federal or state law, in which case that longer period would apply.

(e) As used herein, "Good Reason" shall mean the occurrence of, without Executive's express written consent, a material reduction of the Executive's duties, position or responsibilities relative to the Executive's duties, position or responsibilities in effect immediately prior to such reduction or a material breach of this Agreement by the Company.

(f) As used herein, "Involuntary Termination" shall mean a termination of the Executive's employment by the Company without Cause or a resignation by the Executive for Good Reason within sixty days of the occurrence of the event constituting Good Reason (and after giving effect to the notice and cure periods provided under Section 5.2).

(g) As used herein, a "Separation from Service" occurs when the Executive dies, retires, or otherwise has a termination of employment with the Company that constitutes a "separation from service" within the meaning of Treasury Regulation Section 1.409A-1(h)(1), without regard to the optional alternative definitions available thereunder.

5.6 <u>Notice of Termination</u>. Any termination of the Executive's employment under this Agreement shall be communicated by written notice of termination from the terminating party to the other party. The notice of termination shall indicate the specific provision(s) of this Agreement relied upon in effecting the termination.

5.7 Limitation on Benefits.

(a) Notwithstanding anything contained in this Agreement to the contrary, to the extent that the payments and benefits provided under this Agreement and benefits provided to, or for the benefit of, the Executive under any other Company plan or agreement (such payments or benefits are collectively referred to as the "Benefits") would be subject to the excise tax (the "Excise Tax") imposed under Section 4999 of the Code, the Benefits shall be reduced (but not below zero) if and to the extent that a reduction in the Benefits would result in the Executive retaining a larger amount, on an after-tax basis (taking into account federal, state and local income taxes and the Excise Tax), than if the Executive received all of the Benefits (such reduced amount if referred to hereinafter as the "Limited Benefit Amount"). Unless the Executive shall have given prior written notice (to the extent such a notice does not result in any tax liability under Section 409A of the Code) specifying a different order to the Company to effectuate the Limited Benefit Amount, the Company shall reduce or eliminate the Benefits by first reducing or eliminating those payments or benefits which are not payable in cash and then by reducing or eliminating cash payments, in each case in reverse order beginning with payments or benefits which are to be paid the farthest in time from the Determination (as hereinafter defined). Any notice given by the Executive pursuant to the preceding sentence shall take precedence over the provisions of any other plan, arrangement or agreement governing the Executive's rights and entitlements to any benefits or compensation.

(b) A determination as to whether the Benefits shall be reduced to the Limited Benefit Amount pursuant to this Agreement and the amount of such Limited Benefit Amount shall be made by the Company's independent public accountants or another certified public accounting firm of national reputation designated by the Company (the "Accounting Firm") at the Company's expense. The Accounting Firm shall provide its determination (the "Determination"), together with detailed supporting calculations and documentation to the Company and the Executive within five (5) days of the date of termination of the Executive's employment, if applicable, or such other time as requested by the Company or the Executive (provided the Executive reasonably believes that any of the Benefits may be subject to the Excise Tax), and if the Accounting Firm determines that no Excise Tax is payable by the Executive with respect to any Benefits, it shall furnish the Executive with an opinion reasonably acceptable to the Executive that no Excise Tax will be imposed with respect to any such Benefits. Unless the Executive provides written notice to the Company within ten (10) days of the delivery of the Determination to the Executive that he disputes such Determination, the Determination shall be binding, final and conclusive upon the Company and the Executive.

6. Proprietary Information and Confidentiality Agreement. The Executive has executed and delivered the Proprietary Information and Confidentiality Agreement attached hereto as Exhibit D (the "Confidentiality Agreement"), and shall comply with its terms.

7. Confidentiality. The Executive shall not at any time (whether during or after the Executive's employment with the Company), directly or indirectly, other than in the course of the Executive's duties hereunder, disclose or make available to any person, firm, corporation, association or other entity for any reason or purpose whatsoever, any Confidential Information (as defined in the Confidentiality Agreement). The Executive agrees that, upon termination of the Executive's employment with the Company, all Confidential Information in the Executive's possession that is in written, digital or in other tangible form (together with all copies or duplicates thereof, including any computer or electronically stored files, including but not limited to emails, power point presentations, PDF documents, excel spread sheets and other documents) shall be returned to the Company and shall not be retained by the Executive or furnished to any third party, in any form; provided, however, that the Executive shall not be obligated to treat as confidential, or return to the Company copies of any Confidential Information that (a) was publicly known at the time of disclosure to the Executive, (b) becomes publicly known or available thereafter other than by any means in violation of this Agreement or any other duty owed to the Company by any person or entity, or (c) is lawfully disclosed to the Executive by a third party.

8. <u>Anti-Solicitation.</u>

8.1 <u>Business Relationships.</u> During the Period of Employment and for a period of one (1) year thereafter, the Executive shall not, directly or indirectly, individually or as a consultant to, or as an employee, officer, stockholder, director or other owner or participant in any business, use or disclose the Company's confidential or proprietary information to influence or attempt to influence customers, vendors, suppliers, joint ventures, associates, consultants, agents, or partners of the Company or any of its affiliates (collectively, the "Company Group"), to divert their business away from the Company Group, to any individual, partnership, firm, corporation or other entity then in competition with the business of any entity within the Company Group, and he will not otherwise use or disclose the Company's confidential or proprietary information to materially interfere with any business relationship of any entity within the Company Group.

8.2 <u>Employees and Consultants.</u> During the Period of Employment and for a period of one (1) year thereafter, the Executive shall not, directly or indirectly, individually or as a consultant to, or as an employee, officer, stockholder, director or other owner of or participant in any business, solicit (or assist in soliciting) any person who is then, or at any time within six (6) months prior thereto, an employee or consultant of an entity within the Company Group who earned annually $25,000 or more as an employee or consultant of such entity during the last six (6) months of his or her own employment to work for (as an employee, consultant or otherwise) any business, individual, partnership, firm, corporation, or other entity whether or not engaged in competitive business with any entity in the Company Group.

9. <u>Withholding Taxes.</u> Notwithstanding anything else herein to the contrary, the Company may withhold (or cause there to be withheld, as the case may be) from any amounts otherwise due or payable under or pursuant to this Agreement such federal, state and local income, employment, or other taxes as may be required to be withheld pursuant to any applicable law or regulation.

10. <u>Litigation/Audit Cooperation.</u> Following the termination of the Executive's employment with the Company for any reason, the Executive shall reasonably cooperate with the Company in connection with (a) any internal or governmental investigation or administrative, regulatory, arbitral or judicial proceeding involving any member of the Company Group with respect to matters relating to the Executive's employment with or service as a member of the board of directors of any member of the Company Group (collectively, "Litigation") or (b) any audit of the financial statements of any member of the Company Group with respect to the period of Executive's employment with the Company ("Audit"). The Executive acknowledges that such cooperation may include, but shall not be limited to, the Executive making himself available to the Company Group (or their respective attorneys or auditors) upon reasonable notice for: (i) interviews, factual investigations, and providing declarations or affidavits that provide truthful information in connection with any Litigation or Audit; (ii) appearing at the request of any member of the Company Group to give testimony without requiring service of a subpoena or other legal process; (iii) volunteering to any member of the Company Group pertinent information related to any Litigation or Audit; (iv) providing information and legal representations to the auditors of any member of the Company Group in a form and within a timeframe requested by the Board, with respect to the financial statements for the period in which the Executive was employed by the Company; and (v) turning over to the Company Group any documents relevant to any Litigation or Audit that are or may come into the Executive's possession. The Company Group shall reimburse the Executive for reasonable travel expenses incurred in connection with providing the services under this Section 10, including lodging and meals, upon the Executive's submission of receipts.

11. <u>Assignment</u>. This Agreement is personal in its nature and neither of the parties hereto shall, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder; provided, however, that in the event of a merger, consolidation, or transfer or sale of all or substantially all of the assets of the Company with or to any other individual(s) or entity, this Agreement shall, subject to the provisions hereof, be binding upon and inure to the benefit of such successor and such successor shall discharge and perform all the promises, covenants, duties, and obligations of the Company hereunder.

12. <u>Number and Gender</u>. Where the context requires, the singular shall include the plural, the plural shall include the singular, and any gender shall include all other genders.

13. <u>Section Headings</u>. The section headings of, and titles of paragraphs and subparagraphs contained in, this Agreement are for the purpose of convenience only, and they neither form a part of this Agreement nor are they to be used in the construction or interpretation thereof.

14. <u>Governing Law</u>. This Agreement, and all questions relating to its validity, interpretation, performance and enforcement, as well as the legal relations hereby created between the parties hereto, shall be governed by and construed under, and interpreted and enforced in accordance with, the laws of the State of California, notwithstanding any California or other conflict of law provision to the contrary.

15. <u>Severability</u>. If any provision of this Agreement or the application thereof is held invalid, the invalidity shall not affect other provisions or applications of this Agreement which can be given effect without the invalid provisions or applications and to this end the provisions of this Agreement are declared to be severable.

16. <u>Entire Agreement</u>. This Agreement, together with the Confidentiality Agreement, the Indemnification Agreement and all award agreements related to equity awards granted to the Executive by the Company, embodies the entire agreement of the parties hereto respecting the matters within its scope. This Agreement supersedes all prior and contemporaneous agreements of the parties hereto that directly or indirectly bears upon the subject matter hereof from and after the Effective Date. Any prior negotiations, correspondence, agreements, proposals or understandings relating to the subject matter hereof shall be be merged into this Agreement, and to the extent inconsistent herewith, such negotiations, correspondence, agreements, proposals, or understandings shall be deemed to be of no force or effect. There are no representations, warranties, or agreements, whether express or implied, or oral or written, with respect to the subject matter hereof, except as expressly set forth herein.

17. Modifications. This Agreement may not be amended, modified or changed (in whole or in part), except by a formal, definitive written agreement expressly referring to this Agreement, which agreement is executed by both of the parties hereto.

18. Waiver. Neither the failure nor any delay on the part of a party to exercise any right, remedy, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power or privilege preclude any other or further exercise of the same or of any right, remedy, power or privilege, nor shall any waiver of any right, remedy, power or privilege with respect to any occurrence be construed as a waiver of such right, remedy, power or privilege with respect to any other occurrence. No waiver shall be effective unless it is in writing and is signed by the party asserted to have granted such waiver.

19. Arbitration. Any controversy arising out of or relating to the Executive's employment (whether or not before or after the expiration of the Period of Employment), any termination of the Executive's employment, this Agreement, the Confidentiality Agreement, any currently in effect equity award agreements between Executive and the Company, the Indemnification Agreement, the enforcement or interpretation of any of such agreements, or because of an alleged breach, default, or misrepresentation in connection with any of the provisions of any such agreement, including (without limitation) any state or federal statutory claims, shall be submitted to arbitration in Alameda County, California, before a sole arbitrator selected from Judicial Arbitration and Mediation Services, Inc. or its successor ("JAMS"), or if JAMS is no longer able to supply the arbitrator, such arbitrator shall be selected from the American Arbitration Association; provided, however, that provisional injunctive relief may, but need not, be sought in a court of law while arbitration proceedings are pending, and any provisional injunctive relief granted by such court shall remain effective until the matter is finally determined by the arbitrator. The arbitration shall be administered by JAMS pursuant to its Comprehensive Arbitration Rules and Procedures. Judgment on the award may be entered in any court having jurisdiction.

The parties acknowledge and agree that they are hereby waiving any rights to trial by jury in any action, proceeding or counterclaim brought by either of the parties against the other in connection with any matter whatsoever arising out of or in any way connected with any of the matters referenced in the first sentence of the first paragraph of this Section 19.

The parties agree that the Company shall be responsible for payment of the forum costs of any arbitration hereunder, including the arbitrator's fee. The parties further agree that in any proceeding with respect to such matters, the prevailing party will be entitled to recover its reasonable attorney's fees and costs from the non-prevailing party (other than forum costs associated with the arbitration which in any event shall be paid by the Company).

Without limiting the remedies available to the parties and notwithstanding the foregoing provisions of this Section 19, the Executive and the Company acknowledge that any breach of any of the covenants or provisions contained in Section 7 or 8 of this Agreement or in the Confidentiality Agreement could result in irreparable injury to either of the parties hereto for which there might be no adequate remedy at law, and that, in the event of such a breach or threat thereof, the non-breaching party shall be entitled to seek a temporary restraining order and/or a preliminary injunction and a permanent injunction restraining the other party hereto from engaging in any activities prohibited by any covenant or provision in Section 7 or 8 of this Agreement or in the Confidentiality Agreement or such other equitable relief as may be required to enforce specifically any of such covenants or provisions.

20. Insurance. The Company shall have the right at its own cost and expense to apply for and to secure in its own name, or otherwise, life, health or accident insurance or any or all of them covering the Executive, and the Executive agrees to submit to any usual and customary medical examination and otherwise cooperate with the Company in connection with the procurement of any such insurance and any claims thereunder.

21. Notices.

21.1 All notices, requests, demands, consents and other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly given and made if (i) delivered by hand, (ii) otherwise delivered against receipt therefor, or (iii) sent by registered or certified mail, postage prepaid, return receipt requested. Any such notice, request, demand, consent or other communication by the Board shall be made based on a resolution duly adopted by the Board (or an authorized committee thereof) and made to the Executive by the then serving Chairman of the Board or any other person authorized by the Board (or such committee) to make such communication. Any notice shall be duly addressed to the parties as follows:

(a) If to the Company:

Exar Corporation
48720 Kato Road
Fremont, CA 94538
Attn: Board of Directors

With a copy to:

Exar Corporation
48720 Kato Road
Fremont, CA 94538
Attn: Law Department

(b) If to the Executive, to the address most recently on file in the payroll records of the Company.

21.2 Any party may alter the address to which communications or copies are to be sent by giving notice of such change of address in conformity with the provisions of this Section 21 for the giving of notice. Any communication shall be effective when delivered by hand, when otherwise delivered against receipt therefor, or five (5) business days after being mailed in accordance with the foregoing.

22. Counterparts. This Agreement may be executed in any number of counterparts, each which shall be deemed an original as against any party whose signature appears thereon, and all of which together shall constitute one and the same instrument. This Agreement shall become binding when one or more counterparts hereof, individually or taken together, shall bear the signatures of all of the parties reflected hereon as the signatories. Photographic copies of such signed counterparts may be used in lieu of the originals for any purpose.

23. Legal Counsel; Mutual Drafting. Each party recognizes that this is a legally binding contract and acknowledges and agrees that they have had the opportunity to consult with legal counsel of their choice. Each party has cooperated in the drafting, negotiation and preparation of this Agreement. Hence, in any construction to be made of this Agreement, the same shall not be construed against either party on the basis of that party being the drafter of such language. The Executive agrees and acknowledges that he has read and understands this Agreement, is entering into it freely and voluntarily, and has been advised to seek counsel prior to entering into this Agreement and has had ample opportunity to do so. The parties agree and acknowledge that O'Melveny & Myers LLP represents the Company (and not the Executive) in connection with this Agreement.

24. Code Section 409A.

24.1 It is intended that any amounts payable under this Agreement and the Company's and the Executive's exercise of authority or discretion hereunder shall comply with Section 409A of the Code (including the Treasury regulations and other published guidance relating thereto) ("Code Section 409A") so as not to subject the Executive to payment of any interest or additional tax imposed under Code Section 409A. To the extent that any amount payable under this Agreement would trigger the additional tax imposed by Code Section 409A, the Agreement shall be construed and interpreted in a manner to avoid such additional tax yet preserve (to the nearest extent reasonably possible) the intended benefit payable to the Executive.

24.2 Notwithstanding any provision of this Agreement to the contrary, if the Executive is a "specified employee" within the meaning of Treasury Regulation Section 1.409A-1(i) as of the date of the Executive's Separation from Service, to the extent any payment under Section 5.3(b) is deemed to be deferred compensation within the meaning of Section 409A of the Code that is payable as a result of a Separation from Service, then the Executive shall not be entitled to any payment or benefit pursuant to Section 5.3(b) until the earlier of (i) the date which is six (6) months after Executive's Separation from Service for any reason other than death, or (ii) the date of the Executive's death. Any amounts otherwise payable to the Executive upon or in the six (6) month period following the Executive's Separation from Service that are not so paid by reason of this Section 24.2 shall be paid (without interest) as soon as practicable (and in all events within thirty (30) days) after the date that is six (6) months after the Executive's Separation from Service (or, if earlier, as soon as practicable, and in all events within thirty (30) days, after the date of the Executive's death). The provisions of this Section 24.2 shall only apply if, and to the extent, required to avoid the imputation of any tax, penalty or interest pursuant to Section 409A of the Code.

24.3 To the extent that any benefits pursuant to Section 5.3(b)(ii) or reimbursements pursuant to Section 3.6 or Section 4.2 are taxable to the Executive, any reimbursement payment due to the Executive pursuant to any such provision shall be paid to the Executive on or before the last day of the Executive's taxable year following the taxable year in which the related expense was incurred. The benefits and reimbursements pursuant to such provisions are not subject to liquidation or exchange for another benefit and the amount of such benefits and reimbursements that the Executive receives in one taxable year shall not affect the amount of such benefits or reimbursements that the Executive receives in any other taxable year.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company and the Executive have executed this Agreement as of the date first written above.

"COMPANY"

Exar Corporation.
a Delaware corporation

By: ______________________
Name: Louis DiNardo
Title: President and CEO

"EXECUTIVE"

____
Ryan A. Benton
Chief Financial Officer

Exhibit A

SoloPower, Inc.
Synapsense Corporation
Intraop Medical Corporation

EXHIBIT B

[Indemnification Agreement]

EXHIBIT C

[Form of Release Agreement]

CONFIDENTIAL

EXHIBIT D

[Confidentiality Agreement]

Exhibit 3.4

EXAR CORPORATION
2006 EQUITY INCENTIVE PLAN
DIRECTOR NONQUALIFIED STOCK OPTION AGREEMENT

THIS DIRECTOR NONQUALIFIED STOCK OPTION AGREEMENT (this "**Option Agreement**") dated _____________________ by and between **EXAR CORPORATION**, a Delaware corporation (the "**Corporation**"), and ___________________________ (the "**Director**") evidences the nonqualified stock option (the **"Option"**) granted by the Corporation to the Director as to the number of shares of the Corporation's Common Stock first set forth below.

Number of Shares of Common Stock:[1]	________	**Award Date:**	______
Exercise Price per Share:[1]	________	**Expiration Date:**[1,2]	______
Vesting[1,2] [Subject to Section 1.2 of the Terms and Conditions of Director Nonqualified Stock Option (the "**Terms**") attached to this Option Agreement, the Option shall become vested upon the earlier to occur of (i) the fourth anniversary of the Award Date or (ii) the annual meeting of the Corporation's stockholders that occurs in the fourth year following such Award Date.]			

The Option is granted under the Exar Corporation 2006 Equity Incentive Plan (the "**Plan**") and subject to the Terms attached to this Option Agreement (incorporated herein by this reference) and to the Plan. The Option has been granted to the Director in addition to, and not in lieu of, any other form of compensation otherwise payable or to be paid to the Director. Capitalized terms are defined in the Plan if not defined herein. The parties agree to the terms of the Option set forth herein. The Director acknowledges receipt of a copy of the Terms, the Plan and the Prospectus for the Plan.

"DIRECTOR"

____
Signature
____
Print Name

EXAR CORPORATION
a Delaware corporation
By:__________________________________
Print Name:___________________________
Title:________________________________

CONSENT OF SPOUSE

In consideration of the Corporation's execution of this Option Agreement, the undersigned spouse of the Director agrees to be bound by all of the terms and provisions hereof and of the Plan.

___________________________________   ______________________
Signature of Spouse   *Date*

---

1 Subject to adjustment under Section 7.1 of the Plan.

2 Subject to early termination under Section 4 of the Terms and Section 7.2 of the Plan.

TERMS AND CONDITIONS OF DIRECTOR NONQUALIFIED STOCK OPTION

1. Vesting; Limits on Exercise; Incentive Stock Option Status.

1.1 Vesting in General. Subject to Section 1.2 below, the Option shall vest and become exercisable in percentage installments of the aggregate number of shares subject to the Option as set forth on the cover page of this Option Agreement. The Option may be exercised only to the extent the Option is vested and exercisable.

1.2 Change in Control Event. Notwithstanding any other provision to the contrary contained herein or in the Plan, (i) upon the occurrence of a Change in Control Event (as defined in Exhibit A attached hereto), the portion of the Option, and the portion of any other stock option previously granted by the Corporation to the Director, that is outstanding and unvested immediately prior to the Change in Control Event shall accelerate and become fully vested and exercisable as of (or, as may be necessary to effectuate the purposes of this acceleration, immediately prior to) the date of the Change in Control Event; and (ii) if a Business Combination (as defined in Exhibit A hereto) that does not constitute a Change in Control Event occurs and, as a result of such Business Combination, the Director does not continue as a member of the Board (or as a member of the board of directors of the successor or resulting entity) immediately following such Business Combination (because he is removed or not re-elected to the Board, or resigns from the Board at the request of the Corporation or the holders of a majority of the Outstanding Company Voting Securities (as defined in Exhibit A hereto)), the portion of the Option, and the portion of any other outstanding stock option previously granted by the Corporation to the Director (each, a "**Prior Option**"), that is outstanding and unvested immediately prior to such Business Combination shall accelerate and be vested and exercisable as of (or, as may be necessary to effectuate the purposes of this acceleration, immediately prior to) the date of such Business Combination with respect to (x) one hundred percent (100%) of such portion if the Director has served on the Board for at least five (5) years as of the date of such Business Combination, and (y) fifty percent (50%) of such portion if the Director has served on the Board for less than five (5) years as of the date of such Business Combination (and the portion of the Option that remains unvested after giving effect to this clause (y) shall terminate as provided in Section 4.2 or similar provision of any option agreement applicable to a Prior Option). This Section 1.2 amends each option agreement evidencing a Prior Option to effect the accelerated vesting of the Prior Option in the circumstances contemplated hereby. The other terms and conditions of such other option agreements continue in effect as to the Prior Options.

1.3 Limits on Exercise; Incentive Stock Option Status. The following limits shall apply with respect to the Option:

- Cumulative Exercisability. To the extent that the Option is vested and exercisable, the Director has the right to exercise the Option (to the extent not previously exercised), and such right shall continue, until the expiration or earlier termination of the Option.

- No Fractional Shares. Fractional share interests shall be disregarded, but may be cumulated.

- Nonqualified Stock Option. The Option is a nonqualified stock option and is not, and shall not be, an incentive stock option within the meaning of Section 422 of the Code.

2. Continuance of Service Required; No Service Commitment.

The vesting schedule requires continued service through each applicable vesting date as a condition to the vesting of the applicable installment of the Option and the rights and benefits under this Option Agreement. Service for only a portion of the vesting period, even if a substantial portion, will not entitle the Director to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of services as provided in Section 4 below or under the Plan. Nothing contained in this Option Agreement or the Plan constitutes a continued service commitment by the Corporation or interferes with the right of the Corporation to increase or decrease the compensation of the Director from the rate in existence at any time.

3. Method of Exercise of Option.

The Option shall be exercisable by the delivery to the Secretary of the Corporation (or such other person as the Administrator may require pursuant to such administrative exercise procedures as the Administrator may implement from time to time) of:

- a written notice stating the number of shares of Common Stock to be purchased pursuant to the Option or by the completion of such other administrative exercise procedures as the Administrator may require from time to time,

- payment in full for the Exercise Price of the shares to be purchased in cash, check or by electronic funds transfer to the Corporation, or (subject to compliance with all applicable laws, rules, regulations and listing requirements and further subject to such rules as the Administrator may adopt as to any non-cash payment) in shares of Common Stock already owned by the Director, valued at their Fair Market Value on the exercise date;

- any written statements or agreements required pursuant to Section 8.1 of the Plan; and

- satisfaction of the tax withholding provisions of Section 8.5 of the Plan.

The Administrator also may, but is not required to, authorize a non-cash payment alternative by notice and third party payment in such manner as may be authorized by the Administrator, or, subject to such procedures as the Administrator may adopt, authorize a “cashless exercise” with a third party who provides simultaneous financing for the purposes of (or who otherwise facilitates) the exercise of the Option.

4. Early Termination of Option.

4.1 Possible Termination of Option upon Change in Control. The Option is subject to termination in connection with certain corporate transactions as provided in Section 7.2 of the Plan.

4.2 Termination of Option upon a Termination of Director's Services. Subject to earlier termination on the Expiration Date of the Option or pursuant to Section 4.1 above, if the Director ceases to be a member of the Board, the following rules shall apply (the last day that the Director is a member of the Board, except as otherwise provided below, is referred to as the Director's "**Severance Date**"):

- other than as expressly provided below in this Section 4.2, (a) the Director will have until the date that is 3 months after his or her Severance Date to exercise the Option (or portion thereof) to the extent that it was vested on the Severance Date, (b) the Option, to the extent not vested on the Severance Date, shall terminate on the Severance Date, and (c) the Option, to the extent exercisable for the 3-month period following the Severance Date and not exercised during such period, shall terminate at the close of business on the last day of the 3-month period;

- if the Director ceases to be a member of the Board due to the Director's death or Total Disability, (a) the Director (or his beneficiary or personal representative, as the case may be) will have until the date that is 12 months after the Director's Severance Date to exercise the Option, (b) the Option, to the extent not vested on the Severance Date, shall terminate on the Severance Date, and (c) the Option, to the extent exercisable for the 12-month period following the Severance Date and not exercised during such period, shall terminate at the close of business on the last day of the 12-month period.

For purposes of the Option, "**Total Disability**" means a "permanent and total disability" (within the meaning of Section 22(e)(3) of the Code or as otherwise determined by the Administrator).

In all events the Option is subject to earlier termination on the Expiration Date of the Option or as contemplated by Section 4.1. A termination of services will not have occurred until the last day that the Director either or both (1) is employed by and/or (2) renders services to the Corporation or a Subsidiary. Pursuant to Section 6.1 of the Plan, if the Director is not an employee of the Corporation or a Subsidiary or a member of the Board, the Administrator shall be the sole judge of whether the Director continues to render services for purposes of this Option Agreement.

5. Non-Transferability.

The Option and any other rights of the Director under this Option Agreement or the Plan are nontransferable and exercisable only by the Director, except as set forth in Section 5.7 of the Plan.

6. Notices.

Any notice to be given under the terms of this Option Agreement shall be in writing and addressed to the Corporation at its principal office to the attention of the Secretary, and to the Director at the address last reflected on the Corporation's payroll records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be delivered in person or shall be enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government. Any such notice shall be given only when received, but if the Director is no longer a member of the Board, shall be deemed to have been duly given five business days after the date mailed in accordance with the foregoing provisions of this Section 6.

7. **Plan.**

The Option and all rights of the Director under this Option Agreement are subject to the terms and conditions of the Plan, incorporated herein by this reference. The Director agrees to be bound by the terms of the Plan and this Option Agreement (including these Terms). The Director acknowledges having read and understanding the Plan, the Prospectus for the Plan, and this Option Agreement. Unless otherwise expressly provided in other sections of this Option Agreement, provisions of the Plan that confer discretionary authority on the Board or the Administrator do not and shall not be deemed to create any rights in the Director unless such rights are expressly set forth herein or are otherwise in the sole discretion of the Board or the Administrator so conferred by appropriate action of the Board or the Administrator under the Plan after the date hereof.

8. **Entire Agreement.**

This Option Agreement (including these Terms) and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Option Agreement may be amended pursuant to Section 8.6 of the Plan. Such amendment must be in writing and signed by the Corporation. The Corporation may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Director hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

9. **Governing Law.**

This Option Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware without regard to conflict of law principles thereunder.

10. **Effect of this Agreement.**

Subject to the Corporation's right to terminate the Option pursuant to Section 7.2 of the Plan, this Option Agreement shall be assumed by, be binding upon and inure to the benefit of any successor or successors to the Corporation.

11. **Counterparts.**

This Option Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

12. Section Headings.

The section headings of this Option Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

EXHIBIT A

DEFINITION OF CHANGE IN CONTROL EVENT

For purposes of this Option Agreement, "**Change in Control Event**" means the occurrence of any of the following after the Effective Date:

(a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act (a "**Person**")) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of more than 30% of either (1) the then-outstanding shares of Common Stock (the "**Outstanding Company Common Stock**") or (2) the combined voting power of the then-outstanding voting securities of the Corporation entitled to vote generally in the election of directors (the "**Outstanding Company Voting Securities**"); provided, however, that, for purposes of this clause (a), the following acquisitions shall not constitute a Change in Control Event; (A) any acquisition directly from the Corporation, (B) any acquisition by the Corporation, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Corporation or any affiliate of the Corporation or a successor, (D) any acquisition by any entity pursuant to a transaction that complies with clauses (c)(1), (2) and (3) below, and (E) any acquisition by a Person who owned more than 30% of either the Outstanding Company Common Stock or the Outstanding Company Voting Securities as of the Effective Date or an affiliate of any such Person;

(b) A change in the Board or its members such that individuals who, as of the later of the Effective Date or the date that is two years prior to such change (the later of such two dates is referred to as the "**Measurement Date**"), constitute the Board (the "**Incumbent Board**") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Measurement Date whose election, or nomination for election by the Corporation's stockholders, was approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board (including for these purposes, the new members whose election or nomination was so approved, without counting the member and his predecessor twice) shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board;

(c) Consummation of a reorganization, merger, statutory share exchange or consolidation or similar corporate transaction involving the Corporation or any of its Subsidiaries, a sale or other disposition of all or substantially all of the assets of the Corporation, or the acquisition of assets or stock of another entity by the Corporation or any of its Subsidiaries (each, a "**Business Combination**"), in each case unless, following such Business Combination, (1) all or substantially all of the individuals and entities that were the beneficial owners of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that, as a result of such transaction, owns the Corporation or all or substantially all of the Corporation's assets directly or through one or more subsidiaries (a "**Parent**")) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be, (2) no Person (excluding any entity resulting from such Business Combination or a Parent or any employee benefit plan (or related trust) of the Corporation or such entity resulting from such Business Combination or Parent) beneficially owns, directly or indirectly, more than 30% of, respectively, the then-outstanding shares of common stock of the entity resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such entity, except to the extent that the ownership in excess of 30% existed prior to the Business Combination, and (3) at least a majority of the members of the board of directors or trustees of the entity resulting from such Business Combination or a Parent were members of the Incumbent Board (determined pursuant to clause (b) above using the date that is the later of the Effective Date or the date that is two years prior to the Business Combination as the Measurement Date) at the time of the execution of the initial agreement or of the action of the Board providing for such Business Combination; or

(d) Approval by the stockholders of the Corporation of a complete liquidation or dissolution of the Corporation other than in the context of a transaction that does not constitute a Change in Control Event under clause (c) above.

Exhibit 3.5

EXAR CORPORATION
2006 EQUITY INCENTIVE PLAN
DIRECTOR RESTRICTED STOCK UNIT AWARD AGREEMENT

THIS DIRECTOR RESTRICTED STOCK UNIT AWARD AGREEMENT (this "**Agreement**") is dated as of **[_______________]** by and between Exar Corporation, a Delaware corporation (the "**Corporation**"), and **[______________]** (the "**Director**").

W I T N E S S E T H

WHEREAS, pursuant to the Exar Corporation 2006 Equity Incentive Plan (the "**Plan**"), the Corporation has granted to the Director effective as of the date hereof (the "**Award Date**"), a credit of restricted stock units under the Plan (the "**Award**"), upon the terms and conditions set forth herein and in the Plan.

NOW THEREFORE, in consideration of services rendered and to be rendered by the Director, and the mutual promises made herein and the mutual benefits to be derived therefrom, the parties agree as follows:

1. **<u>Defined Terms</u>**. Capitalized terms used herein and not otherwise defined herein shall have the meaning assigned to such terms in the Plan.

2. **<u>Grant</u>**. Subject to the terms of this Agreement, the Corporation hereby grants to the Director an Award with respect to an aggregate of **[______]** stock units (subject to adjustment as provided in Section 7.1 of the Plan) (the "**Stock Units**"). As used herein, the term "stock unit" shall mean a non-voting unit of measurement which is deemed for bookkeeping purposes to be equivalent to one outstanding share of the Corporation's Common Stock (subject to adjustment as provided in Section 7.1 of the Plan) solely for purposes of the Plan and this Agreement. The Stock Units shall be used solely as a device for the determination of the payment to eventually be made to the Director if such Stock Units vest pursuant to Section 3. The Stock Units shall not be treated as property or as a trust fund of any kind.

3. **<u>Vesting</u>**.

(a) **<u>Vesting in General</u>**. **[**Subject to Sections 3(b) and 8 below, the Award shall vest and become nonforfeitable upon the earlier to occur of (i) the fourth anniversary of the Award Date or (ii) the annual meeting of the Corporation's stockholders that occurs in the fourth year following such Award Date.**]**

(b) **<u>Change in Control Event</u>**. Notwithstanding any other provision to the contrary contained herein or in the Plan, (i) upon the occurrence of a Change in Control Event (as defined in <u>Exhibit A</u> attached hereto), the portion of the Award, and the portion of any other award of stock units previously granted by the Corporation to the Director, that is outstanding and unvested immediately prior to the Change in Control Event shall accelerate and become fully vested and nonforfeitable as of (or, as may be necessary to effectuate the purposes of this acceleration, immediately prior to) the date of the Change in Control Event; and (ii) if a Business Combination (as defined in <u>Exhibit A</u> hereto) that does not constitute a Change in Control Event occurs and, as a result of such Business Combination, the Director does not continue as a member of the Board (or as a member of the board of directors of the successor or resulting entity) immediately following such Business Combination (because he is removed or not re-elected to the Board, or resigns from the Board at the request of the Corporation or the holders of a majority of the Outstanding Company Voting Securities (as defined in Exhibit A hereto)), the portion of the Award, and the portion of any other outstanding award of stock units previously granted by the Corporation to the Director (each, a "**Prior Award**"), that is outstanding and unvested immediately prior to such Business Combination shall accelerate and be vested and nonforfeitable as of (or, as may be necessary to effectuate the purposes of this acceleration, immediately prior to) the date of such Business Combination with respect to (x) one hundred percent (100%) of such portion if the Director has served on the Board for at least five (5) years as of the date of such Business Combination, and (y) fifty percent (50%) of such portion if the Director has served on the Board for less than five (5) years as of the date of such Business Combination (and the portion of the Award that remains unvested after giving effect to this clause (y) shall terminate as provided in Section 8 or similar provision of any award agreement applicable to a Prior Award). This Section 3(b) amends each award agreement evidencing a Prior Award to effect the accelerated vesting of the Prior Award in the circumstances contemplated hereby. The other terms and conditions of such other award agreements continue in effect as to the Prior Awards.).

4. **Continuance of Services**. The vesting schedule requires continued service through each applicable vesting date as a condition to the vesting of the applicable installment of the Award and the rights and benefits under this Agreement. Partial service, even if substantial, during any vesting period will not entitle the Director to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of services as provided in Section 8 below or under the Plan. Nothing contained in this Agreement or the Plan constitutes a continued service commitment by the Corporation or interferes with the right of the Corporation to increase or decrease the compensation of the Director from the rate in existence at any time.

5. **Dividend and Voting Rights**.

(a) **Limitations on Rights Associated with Units**. The Director shall have no rights as a stockholder of the Corporation, no dividend rights (except as expressly provided in Section 5(b) with respect to Dividend Equivalent Rights) and no voting rights, with respect to the Stock Units and any shares of Common Stock underlying or issuable in respect of such Stock Units until such shares of Common Stock are actually issued to and held of record by the Director. No adjustments will be made for dividends or other rights of a holder for which the record date is prior to the date of issuance of the stock certificate.

(b) **Dividend Equivalent Rights**. As of any date that the Corporation pays an ordinary cash dividend on its Common Stock, the Corporation shall credit the Director with an additional number of Stock Units equal to (i) the per share cash dividend paid by the Corporation on its Common Stock on such date, multiplied by (ii) the total number of Stock Units (including any dividend equivalents previously credited hereunder) (with such total number adjusted pursuant to Section 7.1 of the Plan) subject to the Award as of the related dividend payment record date, divided by (iii) the fair market value of a share of Common Stock on the date of payment of such dividend. Any Stock Units credited pursuant to the foregoing provisions of this Section 5(b) shall be subject to the same vesting, payment and other terms, conditions and restrictions as the original Stock Units to which they relate. No crediting of Stock Units shall be made pursuant to this Section 5(b) with respect to any Stock Units which, as of such record date, have either been paid pursuant to Section 7 or terminated pursuant to Section 8.

6. Restrictions on Transfer. Neither the Award, nor any interest therein or amount or shares payable in respect thereof may be sold, assigned, transferred, pledged or otherwise disposed of, alienated or encumbered, either voluntarily or involuntarily. The transfer restrictions in the preceding sentence shall not apply to (a) transfers to the Corporation, or (b) transfers by will or the laws of descent and distribution.

7. Timing and Manner of Payment of Stock Units. On or as soon as administratively practical following vesting of the Award pursuant to Section 3 or Section 7 of the Plan (and in all events not later than two and one-half months after the applicable vesting date), the Corporation shall deliver to the Director a number of shares of Common Stock (either by delivering one or more certificates for such shares or by entering such shares in book entry form, as determined by the Corporation in its discretion) equal to the number of Stock Units subject to this Award that vest on the applicable vesting date, unless such Stock Units terminate prior to the given vesting date pursuant to Section 8. The Corporation's obligation to deliver shares of Common Stock or otherwise make payment with respect to vested Stock Units is subject to the condition precedent that the Director or other person entitled under the Plan to receive any shares with respect to the vested Stock Units deliver to the Corporation any representations or other documents or assurances required pursuant to Section 8.1 of the Plan. The Director shall have no further rights with respect to any Stock Units that are paid or that terminate pursuant to Section 8.

8. Effect of Termination of Service. The Director's Stock Units shall terminate to the extent such units have not become vested prior to the first date the Director is no longer a member of the Board, regardless of the reason for the termination of the Director's service as Board member (whether voluntarily or involuntarily, including a termination due to death or disability). If any unvested Stock Units are terminated hereunder, such Stock Units shall automatically terminate and be cancelled as of the applicable termination date without payment of any consideration by the Corporation and without any other action by the Director, or the Director's beneficiary or personal representative, as the case may be.

9. Adjustments Upon Specified Events. Upon the occurrence of certain events relating to the Corporation's stock contemplated by Section 7.1 of the Plan (including, without limitation, an extraordinary cash dividend on such stock), the Administrator shall make adjustments if appropriate in the number of Stock Units then outstanding and the number and kind of securities that may be issued in respect of the Award. No such adjustment shall be made with respect to any ordinary cash dividend for which Dividend Equivalent Rights may be credited pursuant to Section 5(b).

10. Tax Withholding. Subject to Section 8.1 of the Plan, upon any distribution of shares of Common Stock in respect of the Stock Units, the Corporation shall automatically reduce the number of shares to be delivered by (or otherwise reacquire) the appropriate number of whole shares, valued at their then fair market value (with the "fair market value" of such shares determined in accordance with the applicable provisions of the Plan), to satisfy any withholding obligations of the Corporation with respect to such distribution of shares at the minimum applicable withholding rates. In the event that the Corporation cannot legally satisfy such withholding obligations by such reduction of shares, or in the event of a cash payment or any other withholding event in respect of the Stock Units, the Corporation shall be entitled to require a cash payment by or on behalf of the Director and/or to deduct from other compensation payable to the Director any sums required by federal, state or local tax law to be withheld with respect to such distribution or payment.

11. **Notices**. Any notice to be given under the terms of this Agreement shall be in writing and addressed to the Corporation at its principal office to the attention of the Secretary, and to the Director at the Director's last address reflected on the Corporation's records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be given only when received, but if the Director is no longer a member of the Board, shall be deemed to have been duly given by the Corporation when enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government.

12. **Plan**. The Award and all rights of the Director under this Agreement are subject to, and the Director agrees to be bound by, all of the terms and conditions of the provisions of the Plan, incorporated herein by reference. In the event of a conflict or inconsistency between the terms and conditions of this Agreement and of the Plan, the terms and conditions of the Plan shall govern. The Director agrees to be bound by the terms of the Plan and this Agreement. The Director acknowledges having read and understanding the Plan, the Prospectus for the Plan, and this Agreement. Unless otherwise expressly provided in other sections of this Agreement, provisions of the Plan that confer discretionary authority on the Administrator do not (and shall not be deemed to) create any rights in the Director unless such rights are expressly set forth herein or are otherwise in the sole discretion of the Administrator so conferred by appropriate action of the Administrator under the Plan after the date hereof.

13. **Entire Agreement**. This Agreement and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Agreement may be amended pursuant to Section 8.6 of the Plan. Such amendment must be in writing and signed by the Corporation. The Corporation may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Director hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

14. **Limitation on Director's Rights.** Participation in the Plan confers no rights or interests other than as herein provided. This Agreement creates only a contractual obligation on the part of the Corporation as to amounts payable and shall not be construed as creating a trust. Neither the Plan nor any underlying program, in and of itself, has any assets. The Director shall have only the rights of a general unsecured creditor of the Corporation with respect to amounts credited and benefits payable, if any, with respect to the Stock Units, and rights no greater than the right to receive the Common Stock as a general unsecured creditor with respect to Stock Units, as and when payable hereunder.

15. Counterparts. This Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

16. Section Headings. The section headings of this Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

17. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware without regard to conflict of law principles thereunder.

18. Construction. It is intended that the terms of the Award will not result in the imposition of any tax liability pursuant to Section 409A of the Code. This Agreement shall be construed and interpreted consistent with that intent.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Corporation has caused this Agreement to be executed on its behalf by a duly authorized officer and the Director has hereunto set his or her hand as of the date and year first above written.

EXAR CORPORATION, **a Delaware corporation**	**DIRECTOR**
By:_________________________________	_________________________________ *Signature*
Print Name:__________________________	
Its:_________________________________	_________________________________ *Print Name*

CONSENT OF SPOUSE

In consideration of the execution of the foregoing Director Restricted Stock Unit Award Agreement by Exar Corporation, I, ______________________________, the spouse of the Director therein named, do hereby join with my spouse in executing the foregoing Director Restricted Stock Unit Award Agreement and do hereby agree to be bound by all of the terms and provisions thereof and of the Plan.

Dated: _______________

____
Signature of Spouse

____
Print Name

EXHIBIT A

DEFINITION OF CHANGE IN CONTROL EVENT

For purposes of this Agreement, "**Change in Control Event**" means the occurrence of any of the following after the Effective Date:

(a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act (a "**Person**")) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of more than 30% of either (1) the then-outstanding shares of Common Stock (the "**Outstanding Company Common Stock**") or (2) the combined voting power of the then-outstanding voting securities of the Corporation entitled to vote generally in the election of directors (the "**Outstanding Company Voting Securities**"); provided, however, that, for purposes of this clause (a), the following acquisitions shall not constitute a Change in Control Event; (A) any acquisition directly from the Corporation, (B) any acquisition by the Corporation, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Corporation or any affiliate of the Corporation or a successor, (D) any acquisition by any entity pursuant to a transaction that complies with clauses (c)(1), (2) and (3) below, and (E) any acquisition by a Person who owned more than 30% of either the Outstanding Company Common Stock or the Outstanding Company Voting Securities as of the Effective Date or an affiliate of any such Person;

(b) A change in the Board or its members such that individuals who, as of the later of the Effective Date or the date that is two years prior to such change (the later of such two dates is referred to as the "**Measurement Date**"), constitute the Board (the "**Incumbent Board**") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Measurement Date whose election, or nomination for election by the Corporation's stockholders, was approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board (including for these purposes, the new members whose election or nomination was so approved, without counting the member and his predecessor twice) shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board;

(c) Consummation of a reorganization, merger, statutory share exchange or consolidation or similar corporate transaction involving the Corporation or any of its Subsidiaries, a sale or other disposition of all or substantially all of the assets of the Corporation, or the acquisition of assets or stock of another entity by the Corporation or any of its Subsidiaries (each, a "**Business Combination**"), in each case unless, following such Business Combination, (1) all or substantially all of the individuals and entities that were the beneficial owners of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that, as a result of such transaction, owns the Corporation or all or substantially all of the Corporation's assets directly or through one or more subsidiaries (a "**Parent**")) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be, (2) no Person (excluding any entity resulting from such Business Combination or a Parent or any employee benefit plan (or related trust) of the Corporation or such entity resulting from such Business Combination or Parent) beneficially owns, directly or indirectly, more than 30% of, respectively, the then-outstanding shares of common stock of the entity resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such entity, except to the extent that the ownership in excess of 30% existed prior to the Business Combination, and (3) at least a majority of the members of the board of directors or trustees of the entity resulting from such Business Combination or a Parent were members of the Incumbent Board (determined pursuant to clause (b) above using the date that is the later of the Effective Date or the date that is two years prior to the Business Combination as the Measurement Date) at the time of the execution of the initial agreement or of the action of the Board providing for such Business Combination; or

(d) Approval by the stockholders of the Corporation of a complete liquidation or dissolution of the Corporation other than in the context of a transaction that does not constitute a Change in Control Event under clause (c) above.

EXHIBIT 31.1

PRINCIPAL EXECUTIVE OFFICER CERTIFICATION

I, Louis DiNardo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Exar Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2013

/s/ Louis DiNardo

Louis DiNardo
Chief Executive Officer, President and Director
(Principal Executive Officer)

EXHIBIT 31.2

PRINCIPAL FINANCIAL OFFICER CERTIFICATION

I, Ryan A. Benton, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Exar Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2013

/s/ Ryan A. Benton

Ryan A. Benton
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Louis DiNardo, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Exar Corporation on Form 10-Q for the period ended September 29, 2013 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and that the information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Exar Corporation.

Date: November 7, 2013

/s/ Louis DiNardo
Louis DiNardo
Chief Executive Officer, President and Director
(Principal Executive Officer)

Exhibit 32.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Ryan A. Benton, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Exar Corporation on Form 10-Q for the period ended September 29, 2013 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and that the information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Exar Corporation.

Date: November 7, 2013

/s/ Ryan A. Benton

Ryan A. Benton
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)