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 28, 2014

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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 47,075,018 as of November 4, 2014.

EXAR CORPORATION AND SUBSIDIARIES

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QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 28, 2014

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 28, 2014	March 30, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 78,377	$ 14,614
Restricted cash	26,000	—
Short-term marketable securities	—	152,420
Accounts receivable (net of allowances of $1,273 and $1,178)	25,828	15,023
Accounts receivable, related party (net of allowances of $613 and $608)	2,108	3,309
Inventories	31,223	28,982
Other current assets	5,323	3,549
Total current assets	168,859	217,897
Property, plant and equipment, net	17,212	21,280
Goodwill	45,106	30,410
Intangible assets, net	93,136	31,390
Other non-current assets	1,408	1,240
Total assets	$ 325,721	$ 302,217
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 17,737	$ 15,488
Accrued compensation and related benefits	5,175	4,174
Deferred income and allowances on sales to distributors	4,052	1,765
Deferred income and allowances on sales to distributors, related party	10,342	9,349
Short-term debt financing	26,000	—
Liability for acquisition of non-controlling interests	18,883	—
Other current liabilities	14,798	11,370
Total current liabilities	96,987	42,146
Long-term lease financing obligations	19	70
Other non-current obligations	5,476	6,626
Total liabilities	102,482	48,842
Commitments and contingencies (Notes 14, 15 and 16)		
Stockholders' equity:		
Common stock, $.0001 par value; 100,000,000 shares authorized; 47,091,877 and 47,336,005 shares outstanding	5	5
Additional paid-in capital	512,384	508,116
Accumulated other comprehensive loss	(25)	(1,079)
Accumulated deficit	(289,125)	(253,667)
Total stockholders' equity	223,239	253,375
Total liabilities and stockholders’ equity	$ 325,721	$ 302,217

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 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Sales:				
Net sales	$ 34,369	$ 24,978	$ 56,067	$ 48,836
Net sales, related party	8,790	9,040	17,811	17,809
Total net sales	43,159	34,018	73,878	66,645
Cost of sales:				
Cost of sales	19,747	12,371	32,100	24,183
Cost of sales, related party	3,471	4,156	7,309	8,063
Amortization of purchased intangible assets and inventory step-up	3,137	2,098	6,682	3,448
Impairment of Intangibles	8,367	—	8,367	—
Warranty Reserve	—	1,440	—	1,440
Restructuring charges and exit costs	4,305	24	4,332	105
Total cost of sales	39,027	20,089	58,790	37,239
Gross profit	4,132	13,929	15,088	29,406
Operating expenses:				
Research and development	10,369	7,136	18,612	13,316
Selling, general and administrative	11,597	9,376	21,674	16,730
Impairment of Intangibles	3,917	—	3,917	—
Merger and acquisition costs	2,726	144	6,776	609
Restructuring charges and exit costs	2,265	384	2,634	1,315
Net change in fair value of contingent consideration	(3,912)	(2,495)	(4,343)	(2,495)
Total operating expenses	26,962	14,545	49,270	29,475
Loss from operations	(22,830)	(616)	(34,182)	(69)
Other income and expense, net:				
Interest income and other, net	177	372	467	659
Interest expense	(494)	(41)	(980)	(78)
Total other income and expense, net	(317)	331	(513)	581
Income (Loss) before income taxes	(23,147)	(285)	(34,695)	512
(Benefit) Provision for income taxes	107	(6,767)	799	(6,776)
Net income (loss)	$ (23,254)	$ 6,482	$ (35,494)	$ 7,288
Less: Net income (loss) attributable to non-controlling interests	98	—	(37)	—
Net income (loss) attributable to Exar Corporation	(23,352)	6,482	(35,457)	7,288
Net income (loss) per share:				
Basic	$ (0.50)	$ 0.14	$ (0.75)	$ 0.15
Diluted	$ (0.50)	$ 0.13	$ (0.75)	$ 0.15
Shares used in the computation of net income (loss) per share:				
Basic	47,139	47,496	47,188	47,151
Diluted	47,139	49,150	47,188	48,647

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 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Net income (loss)	$ (23,254)	$ 6,482	$ (35,494)	$ 7,288
Changes in market value of investments:				
Changes in unrealized loss	—	166	199	(418)
Reclassification adjustment for net realized gains (losses)	—	33	26	(26)
Release of tax provision for unrealized gains	—	—	828	—
Net change in market value of investments	—	199	1,053	(444)
Comprehensive income (loss)	$ (23,254)	$ 6,681	$ (34,441)	$ 6,844
Less: comprehensive income (loss) attributable to non-controlling interests	98	—	(37)	—
Comprehensive income (loss) attributable to Exar Corporation	$ (23,352)	$ 6,681	$ (34,404)	$ 6,844

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 28, 2014	September 29, 2013
Cash flows from operating activities:		
Net income (loss)	$ (35,494)	$ 7,288
Reconciliation of net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,570	6,171
Impairment of Intangibles	12,284	—
Restructuring charges and exit costs	6,966	—
Stock-based compensation expense	6,727	4,710
Release of deferred tax valuation allowance	828	(6,770)
Net change in fair value of contingent consideration	(4,343)	(2,495)
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable and accounts receivable, related party	492	(4,230)
Inventories	(573)	1,345
Other current and non-current assets	(1,025)	(427)
Accounts payable	(2,469)	2,807
Accrued compensation and related benefits	(1,339)	77
Other current and non-current liabilities	(4,001)	(3,256)
Deferred income and allowance to distributors including related party	3,280	(668)
Net cash provided by (used in) operating activities	(10,097)	4,552
Cash flows from investing activities:		
Purchases of property, plant and equipment and intellectual property, net	(656)	(749)
Purchases of short-term marketable securities	(9,296)	(116,589)
Proceeds from maturities of short-term marketable securities	3,997	18,589
Proceeds from sales of short-term marketable securities	158,412	113,618
Acquisition of Integrated Memory Logic Limited, net of cash acquired	(72,659)	—
Acquisition of Cadeka Microcircuits, LLC, net of cash acquired	—	(23,111)
Restricted cash	(26,000)	—
Other disposal activities	—	125
Net cash provided by (used in) investing activities	53,798	(8,117)
Cash flows from financing activities:		
Proceeds from issuance of common stock	2,542	2,897
Purchase of stock for withholding taxes on vested restricted stock	(611)	(1,018)
Proceeds from issuance of debt	91,000	—
Repayment of debt	(65,000)	—
Repurchase of common stock	(6,864)	(1,999)
Payments of lease financing obligations	(1,005)	(982)
Net cash provided by (used in) financing activities	20,062	(1,102)
Net increase (decrease) in cash and cash equivalents	63,763	(4,667)
Cash and cash equivalents at the beginning of period	14,614	14,718
Cash and cash equivalents at the end of period	$ 78,377	$ 10,051
Supplemental disclosure of cash flow and non-cash information:		
Cash paid for income tax	$ 62	$ 66
Cash paid for (received from) interest	(466)	78
Release of restricted stock upon vesting	408	—
Reclassification of non-controlling interest as liability upon close of iML acquisition	18,883	—
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 integrated circuits and system solutions for the High-End Consumer, Industrial & Embedded Systems, and Infrastructure markets. Exar's broad product portfolio includes analog, display, LED lighting, mixed-signal, power management, connectivity, data management, and video processing 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 30, 2014 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 28, 2014 and our results of operations for the three and six months ended September 28, 2014 and September 29, 2013, respectively. These condensed consolidated financial statements are not necessarily indicative of the results to be expected for the entire year ending March 29, 2015.

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 2015 and 2014 both consist of 52 weeks.

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standard Board ("FASB") issued a new standard, Revenue from Contracts with Customers, to clarify the principles for recognizing revenue to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards ("IFRS") that would (1) provide a more robust framework for addressing revenue recognition; (2) improve comparability of revenue recognition practice across entities, industries, jurisdictions, and capital markets; and (3) provide more useful information to users of financial statements through improved disclosure requirements. This standard is effective for annual reporting periods beginning after December 15, 2016. Exar is currently evaluating the effect adoption of this standard will have, if any, on our consolidated financial position, results of operations or cash flows.

In June 2014, the FASB issued amended standards to provide explicit guidance on the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. Under the amended standards, a performance target that affects vesting and that could be achieved after the requisite service period should be treated as a performance condition and therefore, should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. These standards are effective for annual reporting periods beginning after December 15, 2015. Exar is currently evaluating the effect of adoption of this standard will have, if any, on our consolidated financial position, results of operations or cash flows.

In August 2014, the FASB issued amended standards to provide guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures requirement. The amendments (1) provide a definition of the term substantial doubt, (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management's plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). These standards are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Exar does not expect the adoption of this guidance will have a material impact on our consolidated 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 non-controlling 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 for 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 Integrated Memory Logic

On June 3, 2014, we acquired approximately 92% of outstanding shares of Integrated Memory Logic Limited ("iML"), a leading provider of analog mixed-signal solutions for the flat panel display market. On September 15, 2014, we completed the acquisition through a second-step merger to acquire all of the remaining outstanding shares of iML. The iML acquisition supports Exar's strategy of building a large scale diversified analog mixed-signal business. iML's results of operations and estimated fair value of assets acquired and liabilities assumed were included in our condensed consolidated financial statements beginning June 4, 2014.

Consideration

In June 2014, we acquired approximately 92% of iML's outstanding shares for $206.4 million in cash. In September 2014, we acquired the remaining 8% of iML outstanding shares for $18.9 million, which was paid subsequent to the quarter ended September 28, 2014. Additionally, as required under the terms of the merger agreement, we assumed and converted iML's employees' then outstanding options into options to purchase 1.5 million shares of Exar's common stock. The fair value of pre-merger vested options of $3.8 million was recorded as purchase consideration.

In accordance with Accounting Standard Codification ("ASC") 805, Business Combinations, the acquisition of iML's outstanding shares was recorded as a purchase business acquisition since iML was considered a business. Under the purchase method of accounting, the fair value of the consideration was allocated to net assets acquired. 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 of 16.9%. 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 $14.7 million. Goodwill is primarily from expected synergies resulting from combining the operations of iML with that of Exar and is not deductible for tax purposes.

The summary of the purchase consideration is as follows (in thousands):

		Amount
Cash	$	206,411
Consideration for the acquisition of non-controlling interests		17,872
Fair value of assumed iML employee options		3,835
Total purchase price	$	228,118

Preliminary Purchase Price Allocation

The allocation of the total preliminary purchase price to iML'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 iML acquisition was as follows (in thousands):

		Amount
Identifiable tangible assets (liabilities)		
Cash	$	133,752
Accounts receivable		10,096
Inventories		3,950
Other current assets		727
Property, plant and equipment		480
Other assets		308
Current liabilities		(12,356)
Long-term liabilities		(3,595)
Total identifiable tangible assets (liabilities), net		133,362
Identifiable intangible assets		80,060
Total identifiable assets, net		213,422
Goodwill		14,696
Fair value of total consideration transferred	$	228,118

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

		Fair Value
Developed technologies	$	55,780
In-process research and development		8,100
Customer relationships		15,060
Trade names		1,120
Total identifiable intangible assets	$	80,060

In valuing specific components of the acquisition, that includes deferred taxes, and intangibles, we were required 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 iML are included in the merger and acquisition costs and interest expense line on the condensed consolidated statement of operations for the three and six months ended September 28, 2014 and were approximately $3.0 and $7.2 million, respectively.

Unaudited Pro Forma Financial Information

The following unaudited pro forma condensed financial information presents the combined results of operations of Exar and iML as if the acquisition was completed as of April 1, 2013, (in thousands):

	Three Months Ended		Six Months Ended	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Net sales	$ 43,322	$ 49,124	$ 84,608	$ 98,301
Net income (loss)	$ (19,751)	$ 6,062	$ (27,426)	$ 5,340
Earnings (loss) per share				
Basic	$ (0.42)	$ 0.13	$ (0.58)	$ 0.11
Diluted	$ (0.42)	$ 0.12	$ (0.58)	$ 0.11

Three Months Ended September 28, 2014 Compared with Three Months Ended September 29, 2013

The pro forma financial information includes (1) amortization charges from acquired intangible assets of $0 and $2.4 million, respectively; (2) the estimated stock-based compensation expense related to the stock options assumed of $0.1 million and $0.5 million, respectively; (3) the elimination of historical intangible assets of $0 and $0.1 million, respectively; (4) the elimination of historical stock-based compensation charges recorded by iML of $0.2 million and $0.4 million, respectively, as a result of the cancellation of all outstanding options on the acquisition date; (5) the elimination of acquisition related costs of $3.0 million and $0, respectively; and (6) the related tax provision of $0.4 million and $0.3 million, respectively.

Six Months Ended September 28, 2014 Compared with Three Months Ended September 29, 2013

The pro forma financial information includes (1) amortization charges from acquired intangible assets of $2.4 million and $4.9 million, respectively; (2) the estimated stock-based compensation expense related to the stock options assumed of $0.3 million and $0.6 million, respectively; (3) the elimination of historical intangible assets of $0.1 million and $0.2 million, respectively; (4) the elimination of historical stock-based compensation charges recorded by iML of $0.4 million and $0.1 million, respectively, as a result of the cancellation of all outstanding options on the acquisition date; (5) the elimination of acquisition related costs of $11.2 million and $0, respectively; and (6) the related tax provision of $0.6 million and tax benefit $0.6 million, respectively.

The unaudited pro forma condensed financial information is not intended to represent or be indicative of the condensed results of operations of Exar that would have been reported had the acquisition been completed as of the beginning of the periods presented, and should not be taken as representative of the future consolidated results of operations of Exar.

Acquisition of Stretch

On January 14, 2014, we completed the acquisition of Stretch, Inc. ("Stretch"), a provider of software configurable processors supporting the video surveillance market previously located in Sunnyvale, California. The transaction provides Exar with the technology to deliver an end-to-end high-definition solution for both digital and analog transmission of data from the camera to the DVR or NVR in surveillance applications. Stretch's results of operations and estimated fair value of assets acquired and liabilities assumed were included in our condensed consolidated financial statements beginning January 14, 2014.

In accordance with ASC 805, Business Combinations, the total consideration paid for Stretch was first allocated to the net tangible liabilities assumed based on the estimated fair values of the assets and liabilities at the acquisition date. The excess of the fair value of the consideration paid over the fair value of Stretch's net tangible liabilities assumed and identifiable intangible assets acquired resulted in the recognition of goodwill of $0.7 million primarily related to expected synergies to be achieved in connection with the acquisition. The goodwill is deductible over 15 years for tax purposes.

The table below shows the allocation of the purchase price to tangible and intangible assets acquired and liabilities assumed (in thousands):

	Amount
Tangible assets	$ 2,937
Intangible assets	7,010
Goodwill	667
Liabilities assumed	(10,604)
Fair value of total consideration transferred	$ 10

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 5, 2013. The pro forma effects of the portion of the Cadeka operations assumed through the transaction on our results of operations during fiscal 2014 were considered immaterial.

In accordance with ASC 805, Business Combinations, the total consideration paid for Cadeka was first allocated to the net tangible liabilities assumed based on the estimated fair values of the assets and liabilities at the acquisition date. The excess of the fair value of the consideration paid over the fair value of Cadeka's net tangible liabilities assumed and identifiable intangible assets acquired resulted in the recognition of goodwill of $19.4 million primarily related to expected synergies from combining the operations of Cadeka with that of Exar and the release of deferred tax liabilities. The goodwill is not expected to be tax deductible.

The table below shows the allocation of the purchase price to tangible and intangible assets acquired and liabilities assumed (in thousands):

	Amount
Tangible assets	$ 3,286
Intangible assets	20,380
Goodwill	19,387
Liabilities assumed	(8,216)
Fair value of total consideration transferred	$ 34,837

NOTE 4. BALANCE SHEET DETAILS

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

	September 28, 2014	March 30, 2014
Work-in-process and raw materials	$ 18,403	$ 13,555
Finished goods	12,820	15,427
Total inventories	$ 31,223	$ 28,982

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

	September 28, 2014	March 30, 2014
Land	$ 6,660	$ 6,660
Building	17,284	16,787
Machinery and equipment	41,064	40,675
Software and licenses	17,836	17,549
Property, plant and equipment, total	82,844	81,671
Accumulated depreciation and amortization	(65,632)	(60,391)
Total property, plant and equipment, net	$ 17,212	$ 21,280

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

	September 28, 2014	March 30, 2014
Accrued restructuring charges and exit costs	2,585	2,214
Accrued retention bonus	1,832	—
Accrued income tax	1,760	74
Short-term lease financing obligations	1,717	2,671
Accrued manufacturing expenses, royalties and licenses	1,587	1,639
Purchase consideration holdback	1,006	1,256
Accrued legal and professional services	827	1,453
Other	3,484	2,063
Total other current liabilities	$ 14,798	$ 11,370

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

	September 28, 2014	March 30, 2014
Long-term taxes payable	$ 4,338	$ 794
Deferred tax liability	1,057	614
Accrued restructuring charges and exit costs	62	155
Fair value of earn out liability – long-term	—	3,853
Accrued retention bonus	—	1,181
Other	19	29
Total other non-current obligations	$ 5,476	$ 6,626

NOTE 5. 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 Inc. ("Altior") and Cadeka are classified within Level 3 of the fair value hierarchy since it is based on a probability-based approach that includes significant unobservable inputs. Due to a significant decrease in revenue projections during the quarter ended September 28, 2014, we reversed $3.9 million of contingent consideration as the payment of such consideration was no longer probable. The fair value of the contingent consideration from the acquisitions of Altior and Cadeka was fully released as of September 28, 2014.

We received approximately 93,000 common shares of CounterPath Corporation ("CounterPath") through the dissolution of Skypoint in which we were a limited partner since 2001. CounterPath was one of the investee companies of Skypoint. We estimated the fair value using the market value of common shares as determined by trading on the Nasdaq Capital Market. These securities have been classified to Level 2 as of September 28, 2014 and recorded in the other non-current assets line item on the condensed consolidated balance sheet. We believe the fair value inputs of CounterPath do not meet all of the criteria for Level 1 classification primarily due to the low trading volume of the stock. *See Note 7–"Long-term Investments"* for the discussion on Skypoint.

There were no transfers between Level 1, Level 2, and Level 3 during the fiscal quarter ended September 28, 2014.

The following table summarizes our other investments assets and liabilities as September 28, 2014 (in thousands):

	September 28, 2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	$ 2,000	$ —	$ —	$ 2,000
Common shares of CounterPath	—	92	—	92
Total investment assets	$ 2,000	$ 92	$ —	$ 2,092

As of March 30, 2014, our investment assets and liabilities, measured at fair value on a recurring basis, were as follows (in thousands):

	March 30, 2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	$ 4,636	$ —	$ —	$ 4,636
U.S. government and agency securities	9,378	13,134	—	22,512
State and local government securities	—	2,772	—	2,772
Corporate bonds and securities	5	71,248	—	71,253
Asset-backed securities	—	27,635	—	27,635
Mortgage-backed securities	—	28,248	—	28,248
Total investment assets	$ 14,019	$ 143,037	$ —	$ 157,056
Liabilities:				
Acquisition-related contingent consideration – Altior	$ —	$ —	$ 2,973	$ 2,973
Acquisition-related contingent consideration – Cadeka	—	—	1,370	1,370
Total liabilities	$ —	$ —	$ 4,343	$ 4,343

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

	September 28, 2014	March 30, 2014
Cash and cash equivalents		
Cash at financial institutions	$ 76,377	$ 9,978
Restricted cash	26,000	—
Cash equivalents		
Money market funds	2,000	4,636
Total cash and cash equivalents	$ 104,377	$ 14,614
Available-for-sale securities		
U.S. government and agency securities	$ —	$ 22,512
State and local government securities	—	2,772
Corporate bonds and securities	—	71,253
Asset-backed securities	—	27,635
Mortgage-backed securities	—	28,248
Total short-term marketable securities	$ —	$ 152,420

Our marketable securities include U.S. government and agency securities, state and local government securities, corporate bonds and securities, asset-backed and mortgage-backed securities and certificates of deposit. 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. As of September 28, 2014, $26.0 million of short-term certificate deposit was used as collateral against our CTBC Bank Corporation (USA) ("CTBC") bridge loan and classified as restricted cash. *See Note 9- "Short-term Debt*".

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.

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 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Gross realized gains	$ —	$ 164	$ 264	$ 382
Gross realized losses	—	(131)	(238)	(408)
Net realized income (losses)	$ —	$ 33	$ 26	$ (26)

We did not have any unrealized gain (loss) as of September 28, 2014.

The following table summarizes our investments in marketable securities as of March 30, 2014 (in thousands):

	March 30, 2014			
	Amortized Cost	Unrealized Gross Gains (1)	Unrealized Gross Losses (1)	Fair Value
Money market funds	$ 4,636	$ —	$ —	$ 4,636
U.S. government and agency securities	22,550	1	(39)	22,512
State and local government securities	2,762	10	—	2,772
Corporate bonds and securities	71,309	32	(88)	71,253
Asset-backed securities	27,661	22	(48)	27,635
Mortgage-backed securities	28,362	24	(138)	28,248
Total investments	$ 157,280	$ 89	$ (313)	$ 157,056

(1) Gross of tax impact of $828

Our asset-backed securities as of March 31, 2014 were comprised primarily of premium tranches of vehicle loans and credit card receivables, while our mortgage-backed securities are primarily from Federal agencies. We did not own auction rate securities nor did we own securities that were classified as subprime.

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 the period presented, is included in the interest income and other, net line in the condensed 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.

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 28, 2014, no investments were identified with other-than-temporary declines in value. All investments were redeemed in the first quarter of fiscal 2015.

The amortized cost and estimated fair value of cash equivalents and marketable securities classified as available-for-sale by expected maturity as of March 30, 2014 (in thousands):

	March 30, 2014	
	Amortized Cost	Fair Value
Less than 1 year	$ 49,539	$ 49,504
Due in 1 to 5 years	107,741	107,552
Total	$ 157,280	$ 157,056

The following table summarizes the gross unrealized losses and fair values of our investments in an unrealized loss position as of March 30, 2014, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position (in thousands):

	March 30, 2014					
	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	$ 18,245	$ (39)	$ —	$ —	$ 18,245	$ (39)
Corporate bonds and securities	48,379	(87)	596	(1)	48,975	(88)
Asset-backed securities	7,118	(12)	5,478	(36)	12,596	(48)
Mortgage-backed securities	19,682	(120)	983	(18)	20,665	(138)
Total	$ 93,424	$ (258)	$ 7,057	$ (55)	$ 100,481	$ (313)

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. We calculate the fair value of the contingent consideration on a quarterly basis based on a collaborative effort of our operations and financial accounting groups based on additional information as it becomes available. Any change in the fair value adjustment is recorded in the earnings of that period.

During the three months ended September 28, 2014, we measured the fair value of the contingent consideration liabilities for Altior and Cadeka acquisition based on a combination of income and market approach. Due to the significant decrease in revenue projection with the period in which such contingent consideration could be earned, we determined that the probability of revenue target achievement was highly unlikely. As a result, the fair value of the contingent consideration liabilities was reduced to zero.

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

	Amount
As of March 30, 2014	$ 2,973
Fair value adjustment	(2,973)
As of September 28, 2014	$ —

The change in the fair value of our Cadeka purchase consideration liability is as follows (in thousands):

	Amount
As of March 30, 2014	$ 1,370
Fair value adjustment	(1,370)
As of September 28, 2014	$ —

NOTE 6. 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 single operating segment and one chief operating decision maker, our President and Chief Executive Officer ("CEO"), we utilize an entity-wide approach to assess goodwill for impairment. As of September 28, 2014, 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 the dates indicated below were as follows (in thousands):

	September 28, 2014	March 30, 2014
Beginning balance	$ 30,410	$ 10,356
Goodwill additions	14,696	20,054
Ending balance	$ 45,106	$ 30,410

Goodwill additions during the six months ended September 28, 2014 consisted of $14.7 million residual allocation from the iML acquisition purchase price accounting. The goodwill additions during fiscal 2014 consist of $19.4 million and $0.7 million residual allocation from the Cadeka and Stretch acquisition purchase price accounting, respectively.

Intangible Assets

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

	September 28, 2014				March 30, 2014		
	Carrying Amount	Accumulated Amortization	Impairment charge	Net Carrying Amount	Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:							
Existing technology	$ 118,794	$ (42,268)	$ (9,134)	$ 67,392	$ 63,043	$ (37,510)	$ 25,533
Customer relationships	15,165	(3,600)	(870)	10,695	6,095	(2,762)	3,333
Distributor relationships	7,254	(1,536)	—	5,718	1,264	(1,260)	4
Patents/Core technology	3,459	(3,412)	—	47	3,459	(3,378)	81
Trade names	1,330	(146)	—	1,184	210	(51)	159
Total intangible assets subject to amortization	146,002	(50,962)	(10,004)	85,036	74,071	(44,961)	29,110
In-process research and development	10,380	—	(2,280)	8,100	2,280	—	2,280
Total	$ 156,382	(50,962)	(12,284)	93,136	76,351	(44,961)	31,390

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. Customer relationships are amortized over five to seven years on an accelerated basis. Distributor relationships are amortized over six to seven years. Patents/core technology is amortized over five to six years. Trade names are amortized over three to six years. We expect the amortization of IPR&D to start in late fiscal 2015. 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 business circumstances indicate that the carrying amount of the assets (or asset group) may not be fully recoverable. Whenever events or changes in circumstances suggest that the carrying amount of long-lived assets may not be recoverable, we estimate the future cash flows expected to be generated by the assets (or asset group) from its use or eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of those assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets. Significant management judgment is required in the grouping of long-lived assets and forecasts of future operating results that are used in the discounted cash flow method of valuation. If our actual results, or the plans and estimates used in future impairment analyses are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges.

Exar completed a significant strategic restructuring process that began in the quarter ended September 28, 2014 and ended in October 2014. This restructuring was prompted by the recent acquisition of iML, and an associated significant reduction in force, including reductions at our Hangzhou, China and Loveland, Colorado units. We believe this restructuring allows us to achieve meaningful synergies and operating efficiencies and focus our resources on strategic priorities that we expect will yield the highest incremental return for Exar's stockholders. For additional details, see "Note 11 – Restructuring Charges and Exit Costs." As a result of this restructuring and the resultant re-prioritization of resources, we anticipate a decline in forecasted revenue related to certain intangible assets that were acquired in prior business combinations. Consequently, we performed an intangible assets impairment review during the second quarter of fiscal year 2015. Upon completion of this review, we recorded $12.3 million of impairment charges to acquired intangibles for the three and six months ended September 28, 2014. Of these impairment charges, $7.5 million and $4.8 million are related to High-Performance Analog and Data Compression products, respectively. As of September 29, 2013, there were no indicators or events 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 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Amortization expense	$ 3,724	$ 2,130	$ 6,001	$ 3,674

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

Amortization Expense (by fiscal year)	
2015 (6 months remaining)	$ 6,406
2016	12,696
2017	12,609
2018	12,572
2019	12,248
2020 and thereafter	28,505
Total future amortization	$ 85,036

NOTE 7. LONG-TERM INVESTMENT

In July 2001, Exar became a Limited Partner in the Skypoint Telecom Fund II (US), LP. ("Skypoint Fund"), a venture capital fund focused on investments in communications infrastructure companies. We accounted for this non-marketable equity investment under the cost method in the other non-current assets in the consolidated balance sheet. The partnership was dissolved and the fund distributed stock of investee companies to Exar during first quarter of fiscal 2015.

We regularly 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 28, 2014	March 30, 2014
Beginning balance	$ 946	$ 1,288
Net distributions	—	(19)
Impairment charges	(7)	(323)
Ending balance	$ 939	$ 946

The carrying amount of approximately $0.9 million as of September 28, 2014 reflects the net of the capital contributions, capital distributions and $0.3 million cumulative impairment charges. During the term of the fund we have made $4.8 million in capital contributions to Skypoint Fund since we became a limited partner in July 2001. As of September 28, 2014, 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 impairment analysis 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 remaining underlying investments of Skypoint Fund and as a result, $7,000 and $323,000 impairment charge was recorded during the second fiscal quarter of fiscal year 2015 and fourth quarter of fiscal year 2014, respectively.

NOTE 8. RELATED PARTY TRANSACTIONS

Alonim Investments Inc. ("Alonim") owns approximately 7.6 million shares, or approximately 16%, of our outstanding common stock as of September 28, 2014. As such, Alonim is our largest stockholder.

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

	Three Months Ended		Six Months Ended	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Alonim	20 %	27 %	24 %	27 %

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

	September 28, 2014	March 30, 2014
Alonim	8 %	18 %

Related party expenses for marketing promotional materials reimbursed were not significant for the three and six months ended September 28, 2014 and September 29, 2013, respectively.

NOTE 9. SHORT-TERM DEBT

As part of the acquisition of iML, we entered into short-term financing agreements with Stifel Financial Corporation ("Stifel") and CTBC to provide bridge financing for the acquisition.

As of the date indicated below, our short-term debts principal balances, which is included in the Short-term debt financing line item on the condensed consolidated balance sheets, consisted of the following (in thousands):

	September 28, 2014
CTBC	$ 26,000
Stifel	—
Total short-term debt	$ 26,000

CTBC

On June 9, 2014 we entered into a Business Loan Agreement with CTBC to provide a loan for $26.0 million. This loan bears an interest rate of 3.25% and matures on December 9, 2014. Interest payments are due monthly with the entire principal due not later than December 9, 2014.

All obligations of Exar under the Business Loan Agreement are unconditionally guaranteed by iML through a $26.0 million short-term certificate deposit with the same institution which has been recorded as restricted cash as of September 28, 2014.

As of October 2014, the CTBC business loan has been completely paid off. *See Note 19 – Subsequent Event.*

Stifel

On May 27, 2014 (the "Initial Funding Date"), Exar entered into a bridge credit agreement (the "Credit Agreement") with certain lender parties and Stifel Financial Corp., as Administrative Agent. The Credit Agreement provided Exar with a bridge term loan credit facility in an aggregate principal amount of up to $90.0 million (the "Bridge Facility").

Interest on loans made under the Bridge Facility accrues, at Exar's option, at a rate per annum equal to (1) the Base Rate (as defined below) plus (a) during the first 90 days following the Initial Funding Date, 7.5% and (b) thereafter, 8.5% or (2) 1-month LIBOR plus (a) during the first 90 days following the Initial Funding Date, 8.5% and (b) thereafter, 9.5%. The "Base Rate" is equal to, for any day, a rate per annum equal to the highest of (a) the prime rate in effect on such day, (b) the federal funds effective rate in effect on such day plus 0.50%, and (c) 1 month LIBOR plus 1.00%. The Base Rate is subject to a floor of 2.5%, and LIBOR is subject to a floor of 1.5%. The interest rate for June 2014 was 8.65%.

Exar had drawn $65.0 million in May 2014 to fund the acquisition of iML's outstanding shares. We repaid $26.0 million of the debt in June 2014 through a loan from CTBC with lower interest rate. As of July 2014, we completely paid off the Stifel loan.

Interest

For three and six months ended September 28, 2014, interest on our short-term debt, which is included in the "Interest expense" line item on the condensed consolidated statement of operations, consisted of the following (in thousands):

	September 28, 2014	
	Three months ended	**Six months ended**
CTBC	$ 211	$ 256
Stifel	244	646
Total interest on short-term debt	$ 455	$ 902

NOTE 10. 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 Exar.

On August 28, 2007, we announced the approval of a share repurchase plan and authorized the repurchase of 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.

Stock repurchase activities during six months ended September 28, 2014 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
As of March 31, 2013	9,564	$ 9.22	$ 88,189
Repurchases – August 25 to September 29, 2013	153	13.07	1,999
Repurchases – September 30 to October 27, 2013	73	13.63	1,001
Repurchases – November 24 to December 29, 2013	83	12.09	1,000
Repurchases – December 30, 2013 to January 26, 2014	122	11.61	1,417
Repurchases – January 27 to February 23, 2014	324	11.05	3,583
As of March 30, 2014	10,319	$ 9.22	$ 97,189
Repurchases – March 31 to April 27, 2014	273	10.98	3,000
Repurchases – July 28 to September 28, 2014	393	9.83	3,864
As of September 28, 2014	10,985	$ 9.47	$ 104,053

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

NOTE 11. RESTRUCTURING CHARGES AND EXIT COSTS

2015 Restructuring Charges and Exit Costs

Exar completed a significant strategic restructuring process that began in the quarter ended September 28, 2014 and ended in October 2014. This restructuring was prompted by the recent acquisition of iML, and an associated significant reduction in force, including reductions at our Hangzhou, China and Loveland, Colorado units. We believe this restructuring allows us to achieve meaningful synergies and operating efficiencies and focus our resources on strategic priorities that we expect will yield the highest incremental return for Exar's stockholders. During the three and six months ended September 28, 2014, we incurred $6.6 million and $7.0 million restructuring charges and exit costs, respectively. The charges consisted primarily of reduction of our workforce, the impairment of certain fixed assets, licensed technologies and write-off of related inventory.

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.

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):

	March 30, 2014	Additions/ adjustments	Non-cash charges	Payments	September 28, 2014
Lease termination costs and others	$ 1,615	$ 236	$ (109)	$ (234)	$ 1,508
Impairment of fixed assets, licensed technologies and write down of inventory	—	5,478	(5,478)	—	—
Severance	754	1,252	—	(867)	1,139
Total	$ 2,369	$ 6,966	$ (5,587)	$ (1,101)	$ 2,647

	April 1, 2013	Additions/ adjustments	Non-cash charges	Payments	March 30, 2014
Lease termination costs and others	$ 2,860	$ 570	$ (57)	$ (1,758)	$ 1,615
Severance	426	2,444	—	(2,116)	754
Total	$ 3,286	$ 3,014	$ (57)	$ (3,874)	$ 2,369

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 28,2014	Six Months Ended September 28,2014	
	Shares of Common Stock	Shares of Common Stock	Weighted Average Price per Share
Authorized to issue	4,500		
Reserved for future issuance	1,359		
Issued		13	$ 10.94

Equity Incentive Plans

At the annual meeting of stockholders on September 18, 2014 (the "Annual Meeting"), our stockholders approved the Exar Corporation 2014 Equity Incentive Plan ("2014 Plan"). The 2014 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.

Prior to the Annual Meeting, we maintained the Exar Corporation 2006 Equity Incentive Plan (the "2006 Plan") and the Sipex Corporation 2006 Equity Incentive Plan (the "Sipex 2006 Plan"). As of June 30, 2014, a total of 6,555,492 shares of our common stock were then subject to outstanding awards granted under the 2006 Plan and the Sipex 2006 Plan, and an additional 669,008 shares of our common stock were then available for new award grants under the 2006 Plan. As part of the stockholder approval of the 2014 Plan at the Annual Meeting, we agreed that no new awards will be granted under the 2006 Plan and the Sipex 2006 Plan, although awards made under these plans will remain subject to the terms of each such plan.

The maximum number of shares of our common stock that may be issued or transferred pursuant to awards under the 2014 Plan equals the sum of: (1) 5,170,000 shares, plus (2) the number of any shares subject to stock options granted under the 2006 Plan and the Sipex 2006 Plan and outstanding as of the date of the Annual Meeting which expire, or for any reason are cancelled or terminated, after the date of the Annual Meeting without being exercised, plus (3) the number of any shares subject to restricted stock and restricted stock unit awards granted under the 2006 Plan and the Sipex 2006 Plan that are outstanding and unvested as of the date of the Annual Meeting which are forfeited, terminated, cancelled, or otherwise reacquired after the date of the Annual Meeting without having become vested. Awards other than a stock option or stock appreciation right granted under the 2014 Plan are counted against authorized shares available for future issuance on a basis of two shares for every award issued. As of September 28, 2014, there were 5.1 million shares available for future grant under the 2014 Plan.

Stock Option Activities

Our stock option transactions during the six months ended September 28, 2014 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 30, 2014	7,213,848	$	8.98	5.02	$	21,301	2,170
Granted	2,117,738		8.60				
Exercised	(243,176)		6.83				
Cancelled	(123,023)		12.94				
Forfeited	(545,080)		10.29				
Balance at September 28, 2014	8,420,307	$	8.80	4.93	$	9,232	4,454
Vested and expected to vest, September 28, 2014	7,446,743	$	8.66	4.84	$	9,063	
Vested and exercisable, September 28, 2014	3,285,957	$	7.47	3.83	$	6,345	

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 $9.07 and $11.71 as of September 28, 2014 and March 30, 2014, 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 CEO. The options are scheduled to vest in four equal annual installments at the end of fiscal years 2013 through 2016 if certain predetermined market based financial measures are met. If the financial measures are not met, each installment will be rolled over to the subsequent fiscal year. In January 2014, we granted 140,000 performance-based stock options to our CEO. The options are scheduled to vest at the end of fiscal year 2017 if certain predetermined financial measures are met. We recorded $75,000 and $187,000 of compensation expense for these options in the three and six months ended September 28, 2014, respectively. We recorded $65,000 and $130,000 of compensation expense for these options in the three and six months ended September 29, 2013, respectively.

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

	Three Months Ended				Six Months Ended			
	September 28, 2014		September 29, 2013		September 28, 2014		September 29, 2013	
Intrinsic value of options exercised	$	426	$	1,072	$	856	$	1,894

RSU Activities

Our RSU transactions during the six months ended September 28, 2014 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 30, 2014	1,177,126	$	10.94	1.62	$	13,784
Granted	204,697		9.50			
Issued and released	(221,219)		10.71			
Cancelled	(89,998)		14.35			
Unvested at September 28, 2014	1,070,606	$	10.42	1.48	$	9,710
Vested and expected to vest, September 28, 2014	931,862			1.42	$	8,452

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 (“PRSUs”) to our CEO. The PRSUs were scheduled to vest in three equal 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. We recorded $146,000 and $880,000 of compensation expense for these awards in the three and six months ended September 28, 2014, respectively. We recorded $470,000 and $522,000 of compensation expense for these awards in the three and six months ended September 28, 2013, respectively.

In the first quarter of fiscal 2014, we granted 50,000 PRSUs to certain executives. The PRSUs were scheduled to vest in three equal installments at the end of fiscal year 2014 with a three-year vesting period if certain performance measures are met. We recorded $22,000 of stock compensation expense and stock compensation recovery of $98,000 in the three and six months ended September 28, 2014, respectively as a result of partially meeting the performance measurements by the executives. We recorded $148,000 of stock compensation expense for these awards in the three and six months ended September 29, 2013, respectively.

In July 2013, as part of the acquisition of Cadeka, we agreed to pay retention bonuses to certain former Cadeka employees and the bonuses will be settled in RSUs subject to fulfillment of the service period. We recorded $619,000 and $1,013,000 of compensation expense for these awards in the three and six months ended September 28, 2014, respectively. The expense is reported in the other current obligations line in the condensed consolidated balance sheet as the total amount of bonus is to be settled in variable number of RSUs at the completion of the requisite service period. Such non-cash compensation expense is recorded as part of stock compensation expense in the condensed consolidated statements of operations.

In August 2013, we announced the Fiscal Year 2014 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. The expense is reported in the other current liabilities line in the condensed consolidated balance sheet as the total amount of bonus is to be settled in variable number of RSUs at the completion of the requisite service period. Such non-cash compensation expense is recorded as part of stock compensation expense in the condensed consolidated statements of operations. Due to only partially achieving the financial performance goals and the participant’s annual Management by Objectives goals, we reversed the previously recorded stock compensation of $295,000 in the second quarter of fiscal year 2015 which resulted in a net stock compensation recovery of $290,000 for the six months ended September 28, 2014.

In October 2013, we granted 70,000 PRSUs to certain executives. The first 50% of the PRSUs are scheduled to start vesting in three equal installments at the end of fiscal year 2015 with a three-year vesting period if certain performance measures are met. The second 50% of the PRSUs are scheduled to start vesting in three equal installments at the end of fiscal year 2016 with a three-year vesting period if certain performance measures are met. We recorded $108,000 and $286,000 of compensation expense for these awards in the three and six months ended September 28, 2014, respectively.

In January 2014, we granted 82,500 PRSUs to certain former Stretch employees. The PRSUs are scheduled to start vesting in three equal installments at the end of fiscal year 2015 with a three-year vesting period if certain performance measures are met. We recorded $169,000 of compensation expense in the three and six months ended September 28, 2014, respectively.

In August 2014, we announced the Fiscal Year 2015 Management Incentive Program (“2015 Incentive Program”). Under this program, each participant’s award is denominated in shares of our common stock and is subject to attainment of Exar’s performance goals as established by the Compensation Committee of the Board of Directors for Fiscal Year 2015. We recorded a stock compensation expense of $577,000 in the three and six months ended September 28, 2014, 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 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Cost of sales	$ 227	$ 212	$ 487	$ 354
Research and development	870	689	1,682	829
Selling, general and administrative	2,503	2,722	4,558	3,527
Total Stock-based compensation expense	$ 3,600	$ 3,623	$ 6,727	$ 4,710

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 28, 2014	
	Amount (in thousands)	Weighted Average Expected Remaining Period (in years)
Options	$ 9,898	2.44
Performance Options	531	1.96
RSUs	4,896	1.99
PRSUs	1,894	2.22
Total Unrecognized Stock-based compensation expense	$ 17,219	

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 includes 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 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Expected term of options (years)	4.70	4.44	4.50- 4.70	4.40- 4.44
Risk-free interest rate	1.34%	1.12%	1.30% - 1.34%	0.6%- 1.12
Expected volatility	32%	33%	32%	33% -35%
Expected dividend yield	—	—	—	—
Weighted average estimated fair value	$ 2.89	$ 3.70	$ 2.86	$ 3.49

NOTE 13. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share excludes dilution and is computed by dividing net income (loss) attributable to Exar 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 to purchase common stock were exercised for common stock, using the treasury stock method, and the common stock underlying outstanding 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 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Net income (loss) attributable to Exar Corporation	$ (23,352)	$ 6,482	$ (35,457)	$ 7,288
Shares used in computation of net income (loss) per share:				
Basic	47,139	47,496	47,188	47,151
Effect of options and awards	–	1,654	–	1,496
Diluted	47,139	49,150	47,188	48,647
Net income (loss) per share				
Basic	$ (0.50)	$ 0.14	$ (0.75)	$ 0.15
Diluted	$ (0.50)	$ 0.13	$ (0.75)	$ 0.15

All outstanding stock options and RSUs are potentially dilutive securities. As of September 28, 2014, all outstanding stock options and RSUs were excluded from the computation of diluted net income per share because they were determined to be anti-dilutive. 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.

NOTE 14. LEASE FINANCING OBLIGATIONS

We have acquired engineering design tools ("Design Tools") under capital leases. We acquired Design Tools of $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, and $1.0 million in June 2010 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 28, 2014 and March 30, 2014, 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 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Amortization expense	$ 800	$ 884	$ 1,600	$ 1,750

Future minimum lease and sublease income payments for the lease financing obligations as of September 28, 2014 are as follows (in thousands):

Fiscal Years	Design Tools
2015 (6 months remaining)	$ 1,687
2016	59
2017	10
2018	6
Total minimum lease payments	1,762
Less: amount representing interest	26
Present value of minimum lease payments	1,736
Less: short-term lease financing obligations	1,717
Long-term lease financing obligations	$ 19

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

	Three Months Ended		Six Months Ended	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Interest expense	$ 39	$ 39	$ 78	$ 76

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 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Rent expense	$ 564	$ 233	$ 896	$ 429

Our future minimum lease payments for the lease operating obligations as of September 28, 2014 are as follows (in thousands):

Fiscal Years	Facilities
2015 (6 months remaining)	$ 728
2016	1,108
2017	508
2018	160
Total minimum lease payments	$ 2,504

NOTE 15. 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 ("RWQCB") approved our application for low-threat closure and rescinded the previous cleanup order. All monitoring well closure activities on the site and adjacent/neighboring sites have been completed. We have finalized and executed access, environmental indemnity and tolling agreements, and deed restriction covenants with the property owner. The required deed restriction has been recorded. In October 2014, we received a No Further Action letter and Case Closure summary from RWQCB. The matter is considered closed at this time.

Outstanding liabilities for remediation activities were immaterial for all periods presented.

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 is moving forward with the agreed preliminary site assessment and continues to prepare and submit the agreed periodic status reporting. 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 the opinion of management, after consulting with legal counsel, and taking into account insurance coverage, any ultimate liability related to current outstanding claims and lawsuits, individually or in the aggregate, is not expected to have a material adverse effect on our financial statements, as a whole.

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 investigating alternative upgradient sites. Given that this investigation is ongoing, we are unable to ascertain our exposure, if any. In the opinion of management, after consulting with legal counsel, and taking into account insurance coverage, any ultimate liability related to current outstanding claims and lawsuits, individually or in the aggregate, is not expected to have a material adverse effect on our financial statements, as a whole.

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 liability 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.

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 28, 2014	March 30, 2014
Beginning balance	$ 1,074	$ 50
Provisions for warranties issued	17	1,480
Settlements/adjustments	(452)	(456)
Ending balance	$ 639	$ 1,074

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 16. LEGAL PROCEEDINGS

From time to time, we are involved in various claims, legal actions and complaints arising in the normal course of business. We are not a named party to any ongoing lawsuit or formal proceeding that, in the opinion of our management, is likely to have a material adverse effect on our financial position, results of operations or cash flows.

In fiscal year 2014, two former employees of Exar's French subsidiary asserted claims against that subsidiary for alleged unfair dismissal in the French Labor Courts. We believe that the former employees were terminated in accordance with the requirements of French law and that the former employees' claims are not supported by evidence. The two matters were heard on October 10, 2014 and October 22, 2014, respectively. We dispute the claims and we intend to vigorously protect our interests. The industrial courts will render their judgments on December 1, 2014 and January 21, 2015, respectively. We do not believe an adverse outcome will have a material impact on our financial position, results of operations or cash flow.

NOTE 17. INCOME TAXES

During the three months and six months ended September 28, 2014, we recorded an income tax expense of approximately $0.1 million and $0.8 million, respectively. The income tax expense was primarily related to the allocation of tax expense between continuing operations and other comprehensive income when applying the exception to ASC 740 intraperiod allocation rule upon liquidation of our available for sale security portfolio. 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 release of valuation allowance from Exar's acquisition of Cadeka Microcircuits, LLC.

During the three months ended September 28, 2014, the unrecognized tax benefits decreased by $18,000 to $16.9 million primarily related to the reversals on reserves from statute of limitations. If recognized, $14.1million 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 valuation allowance.

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 28, 2014	March 30, 2014
Accrued interest and penalties	$ 1,254	$ 83

Our major tax jurisdictions are the United States federal and various states, Canada, China, Hong Kong, Taiwan, the Cayman Islands and certain other foreign jurisdictions. The fiscal years 2003 through 2013 remain open and subject to examinations by the appropriate governmental agencies in the United States and over varying periods in certain of our foreign jurisdictions.

NOTE 18. 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 Industrial & Embedded Systems, High-End Consumer, and Infrastructure.

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 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Industrial & Embedded Systems	$ 19,656	$ 17,943	$ 38,523	$ 34,441
High-End Consumer	16,199	105	19,623	351
Infrastructure	7,304	15,970	15,732	31,853
Total net sales	$ 43,159	$ 34,018	$ 73,878	$ 66,645

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 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
China	$ 16,738	$ 11,341	$ 27,497	$ 22,294
United States	5,012	11,572	11,239	22,040
Taiwan	5,826	911	7,236	1,793
Korea	5,126	544	7,254	1,526
Singapore	3,605	3,534	7,195	6,930
Germany	3,055	2,888	6,012	5,668
Rest of world	3,797	3,228	7,445	6,394
Total net sales	$ 43,159	$ 34,018	$ 73,878	$ 66,645

Substantially all of our long-lived assets at each of September 28, 2014 and September 29, 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 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Distributor A	20 %	27 %	24 %	27 %
Distributor B	*	26 %	*	24 %
Distributor C	*	11 %	*	11 %
Customer C	11 %	*	*	*

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* Net sales for this distributor or customer for this period were less than 10% of our net sales.

No other distributor or customer accounted for 10% or more of the net sales for the three and six months ended September 28, 2014 or September 29, 2013, respectively.

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

	September 28, 2014	March 30, 2014
Distributor A	*	16 %
Distributor B	*	17 %
Distributor D	*	14 %
Distributor C	*	12 %
Customer C	13 %	*

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* 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 28, 2014 or March 30, 2014, respectively.

NOTE 19. SUBSEQUENT EVENTS

On September 15, 2014, we completed the iML acquisition through a second-step merger to acquire all of the remaining outstanding shares of iML held by non-controlling interests. As of September 15, 2014, Exar owns 100% of the outstanding stock of iML. Subsequent to the end of the quarter, in October 2014 we substantively paid off $18.9 million liability for acquisition of the non-controlling interests and the $26 million business loan with CTBC.

Subsequent to the end of the quarter, we finalized a significant restructuring. *See "Note 11 – Restructuring Charges and Exit Costs"* for additional details.

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 this Part I, Item 2—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Second Quarter of Fiscal 2015 Executive Summary" and elsewhere regarding (1) our future strategies and target markets, (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 30, 2014. 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 30, 2014, as filed with the Securities and Exchange Commission ("SEC"). Our results of operations for the three and six months ended September 28, 2014 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 integrated circuits and system solutions for the following end markets: Industrial & Embedded Systems, High-End Consumer, and Infrastructure. Exar's broad product portfolio includes analog, display, LED lighting, mixed-signal, power management, connectivity, data management, and video processing 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, displays, mobile systems, set top boxes, digital video recorders, and lighting systems. 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 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."*

Second Quarter of Fiscal 2015 Executive Summary

Quarterly revenues of $43.2 million for the second quarter of fiscal 2015 increased $12.5 million or 41% from the previous quarter's revenue of $30.7 million and increased $9.1 million or 27% over $34.0 million reported in the second quarter of fiscal year 2014. The increase was primarily due to inclusion of revenue generated by the newly acquired Integrated Memory Logic Limited ("iML") business which has been included in our condensed consolidated financial statements beginning June 2014.

Net loss of $23.3 million increased $11.2 million from prior quarter and increased $29.8 million from the second quarter of fiscal year 2014. The increase in net loss was primarily due to iML related acquisition expense amortization and impairment of acquired intangible assets, impairment of fixed assets and related inventory write down. Loss per share of $0.50 in the second quarter of fiscal 2015 increased $0.24 per share from the first quarter of fiscal 2015 and increased $0.64 per share from the second quarter of fiscal 2014. Excluding the nonrecurring expenses, we believe we are effectively managing our operating expenses while continuing to invest an appropriate amount in research and development projects for future products.

Critical Accounting Policies and Estimates

There have been no significant changes to our critical accounting policies during the three and six months ended September 28, 2014, as compared to the previous disclosures in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended March 30, 2014.

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 Ended		Change	
	September 28, 2014	September 29, 2013		
Net Sales	$ 43,159	$ 34,018	$ 9,141	27%
Cost of sales:				
Cost of sales	19,747	12,371	7,376	60%
Cost of sales-related party	3,471	4,156	(685)	(16)%
Amortization of purchased intangible assets and inventory step-up costs	3,137	2,098	1,039	50%
Impairment of Intangibles	8,367	—	8,367	100%
Warranty reserve	—	1,440	(1,440)	(100)%
Restructuring charges and exit costs	4,305	24	4,281	17838%
Total cost of sales	39,027	20,089	18,938	94%
Gross profit	4,132	13,929	(9,797)	(70)%
Operating expenses:				
Research and development	10,369	7,136	3,233	45%
Selling, general and administrative	11,597	9,376	2,221	24%
Impairment of Intangibles	3,917	—	3,917	100%
Merger and acquisition costs	2,726	144	2,582	1793%
Restructuring charges and exit costs	2,265	384	1,881	490%
Net change in fair value of contingent consideration	(3,912)	(2,495)	(1,417)	57%
Total operating expenses	26,962	14,545	12,417	85%
(Loss) from operations	(22,830)	(616)	(22,214)	3606%
Interest income and other, net	177	372	(195)	52%
Interest expense	(494)	(41)	(453)	1,105%
(Loss) before income taxes	(23,147)	(285)	(22,862)	8022%
Provision for (benefit from) income taxes	107	(6,767)	6,874	(102)%
Net income (loss)	$ (23,254)	$ 6,482	$ (29,736)	(459)%
Less: Net income (loss) attributable to non-controlling interests	98	—	98	100%
Net income (loss) attributable to Exar Corporation	$ (23,352)	$ 6,482	$ (29,834)	(460)%

	Six Months Ended		Change	
	September 28, 2014	September 29, 2013		
Net Sales	$ 73,878	$ 66,645	$ 7,233	11%
Cost of sales:				
Cost of sales	32,100	24,183	7,917	33%
Cost of sales-related party	7,309	8,063	(754)	(9)%
Amortization of purchased intangible assets and inventory step-up costs	6,682	3,448	3,234	94%
Impairment of Intangibles	8,367	—	8,367	100%
Warranty reserve	—	1,440	(1,440)	(100)%
Restructuring charges and exit costs	4,332	105	4,227	4026%
Total cost of sales	58,790	37,239	21,551	58%
Gross profit	15,088	29,406	(14,318)	(49)%
Operating expenses:				
Research and development	18,612	13,316	5,296	40%
Selling, general and administrative	21,674	16,730	4,944	30%
Impairment of Intangibles	3,917	—	3,917	100%
Merger and acquisition costs	6,776	609	6,167	1013%
Restructuring charges and exit costs	2,634	1,315	1,319	100%
Net change in fair value of contingent consideration	(4,343)	(2,495)	(1,848)	74%
Total operating expenses	49,270	29,475	19,795	67%
Loss from operations	(34,182)	(69)	(34,113)	494394%
Interest income and other, net	467	659	(192)	(29)%
Interest expense	(980)	(78)	(902)	1156%
Income (loss) before income taxes	(34,695)	512	(35,207)	(6876)%
Provision for (benefit from) income taxes	799	(6,776)	7,575	(112)%
Net income (loss)	$ (35,494)	$ 7,288	$ (42,782)	(587)%
Less: Net income (loss) attributable to non-controlling interests	(37)	—	(37)	100%
Net income (loss) attributable to Exar Corporation	$ (35,457)	$ 7,288	$ (42,745)	(587)%

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					Six Months Ended				
	September 28, 2014		September 29, 2013		Change	September 28, 2014		September 29, 2013		Change
Net Sales:										
Industrial & Embedded Systems	$ 19,656	46%	17,943	53%	10%	$ 38,523	52%	$ 34,441	52%	12%
High-End Consumer	16,199	38%	105	—%	15328%	19,623	27%	351	1%	5491%
Infrastructure	7,304	17%	15,970	47%	(54)%	15,732	21%	31,853	48%	(51)%
Total	$ 43,159	100%	$ 34,018	100%		$ 73,878	100%	$ 66,645	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					Six Months Ended				
	September 28, 2014		September 29, 2013		Change	September 28, 2014		September 29, 2013		Change
Net Sales:										
Asia	$ 33,321	77%	$ 18,535	54%	80%	$ 52,768	71%	$ 36,985	55%	43%
Americas	5,493	13%	11,760	35%	(53)%	12,355	17%	22,468	34%	(45)%
Europe	4,345	10%	3,723	11%	17%	8,755	12%	7,192	11%	22%
Total	$ 43,159	100%	$ 34,018	100%		$ 73,878	100%	$ 66,645	100%	

Three Months Ended September 28, 2014 *Compared with Three Months Ended September 29, 2013*

Total revenue increased by $9.1 million or 27%. The increases in High-End Consumer and Asia markets were primarily due to business obtained through recent acquisitions. The increases in Industrial & Embedded Systems and Europe markets were primarily due to higher sales volume of connectivity products as a result of strengthened sales effort in the Europe region. Europe revenue generated from connectivity products increased by $0.4 million. The decreases in Infrastructure and Americas markets were primarily due to significant lower sales volume of our data compression products which resulted in lower sales of $6.0 million.

Six Months Ended September 28, 2014 Compared with Three Months Ended September 29, 2013

Total revenue increased by $7.2 million or 11%. The increases in High-End Consumer and Asia markets were primarily due to business obtained through recent acquisitions. The increases in Industrial & Embedded Systems and Europe markets were primarily due to recent acquisitions and higher sales volume of connectivity products as a result of strengthened sales effort in the Europe region. Europe revenue generated from connectivity products increased by $0.6 million. The decreases in Infrastructure and Americas markets were primarily due to significant lower sales volume of our data compression products which resulted in lower sales of $11.3 million.

Gross Profit

Gross profit as a percentage of net sales for the three and six months ended September 28, 2014 decreased by approximately 31% and 24%, respectively, as compared to the same period a year ago. The decrease was primarily due to inclusion of amortization expense related to the purchased intangible assets for our recent acquisitions, and restructuring charges including impairment charges of intangible and related inventory write down in the second quarter of fiscal year 2015.

We believe that gross profit will fluctuate as a percentage of 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, 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 months ended September 28, 2014 increased $3.2 million as compared to the same period a year ago. The increase was primarily due to inclusion of iML's operations and an average headcount increase from 133 to 151 for the three months ended September 29, 2013 and September 28, 2014, respectively. R&D expenses for the six months ended September 28, 2014 increased $5.3 million as compared to the same period a year ago. The increase was primarily due to inclusion of operations from recent acquisitions since fiscal year 2014 and an average headcount increase from 131 to 144 for the six months ended September 29, 2013 and September 28, 2014, respectively.

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 the three and six months ended September 28, 2014, we offset $0.3 million of R&D expenses in connection with this agreement, respectively. For the three and six months ended September 29, 2013, we offset $0.5 million and $1.0 million of R&D expense in connection with this agreement, respectively.

We believe that R&D expenses will 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 28, 2014 each increased $2.2 million and $4.9 million, respectively, compared with the same period a year ago. The increase was mainly due to recent acquisitions since fiscal year 2014. This increase was partially offset by a $3.9 million and a $4.3 million reduction in the estimated fair value of contingent consideration liabilities for the three and six months ended September 28, 2014, respectively. These reductions related to the acquisitions of Cadeka Microcircuits LLC and Altior Inc. *See "Note 5 – Fair Value."*

We believe that SG&A expenses will 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.

Merger and Acquisition costs

Merger and acquisition costs for the three and six months ended September 28, 2014 increased $2.6 and $6.2 million, respectively, as compared with the same periods a year ago. The increase was primarily due to transaction costs incurred for the acquisition of iML which was finalized in September 2014.

Restructuring Charges and Exit Costs

During the three and six months ended September 28, 2014, we recorded $6.6 and $7.0 million restructuring charges and exit costs, respectively. The charges were mainly due to the strategic restructuring resulting in a reduction of our workforce, the impairment of certain intangible and fixed assets, and write-off of related inventory. We believe this restructuring allows us to achieve meaningful synergies and operating efficiencies. *See "Note 6 – Goodwill and Intangible Assets" and "Note 11 – 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, realized gains or losses on marketable securities.

Interest income and other, net during the three and six months ended September 28, 2014 remained consistent as compared to the same periods a year ago.

Interest Expense

Interest expense for the three months ended September 28, 2014 increased $0.5 million, or 1,105%, as compared to the same period a year ago. Interest expense for the six months ended September 28, 2014 increased $0.9 million, or 1,156%, as compared to the same period a year ago. The increase was primarily due to a $0.5 million and $0.9 million interest expenses incurred in the three months and six months ended September 28, 2014 as a result of $65.0 million of short term debt borrowed from Stifel Financial Corporation ("Stifel") and CTBC Bank Corporation (USA) ("CTBC"). We expect the interest expense to be immaterial for future periods.

Provision for Income Taxes

During the three and six months ended September 28, 2014, we recorded an income tax expense of approximately $0.1 million and $0.8 million, respectively. The income tax expense was primarily related to the allocation of tax expense between continuing operations and other comprehensive income when applying the exception to the ASC 740 intraperiod allocation rule upon liquidation of our available for sale security portfolio. 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 release of valuation allowance from Exar's acquisition of Cadeka Microcircuits, LLC.

Liquidity and Capital Resources

	Six Months Ended	
	September 28, 2014	September 29, 2013
	(dollars in thousands)	
Cash and cash equivalents	$ 78,377	$ 10,051
Restricted cash	26,000	--
Short-term marketable securities	--	174,862
Total cash, cash equivalents and short-term investments	$ 104,377	$ 184,913
Percentage of total assets	62%	59%
Net cash provided by (used in) operating activities	$ (10,097)	$ 4,552
Net cash provided by (used in) investing activities	53,798	(8,117)
Net cash provided by (used in) financing activities	20,062	(1,102)
Net increase (decrease) in cash and cash equivalents	$ 63,763	$ (4,667)

Fiscal Year 2015

Our net loss was approximately $35.5 million for the six months ended September 28, 2014. After adjustments for non-cash items and changes in working capital, we used $10.1 million of cash from operating activities.

Significant non-cash charges and credits included:

- depreciation and amortization expenses of $8.6 million;
- impairment of intangibles of $12.3 million;
- restructuring charges and exit costs of $7.0 million resulting from reduction of our workforce, impairment of certain intangible and fixed assets, and write-off of related inventory;
- inventory decrease of $0.6 million;
- stock-based compensation expense of $6.7 million;
- net reduction in fair value of contingent consideration of $4.3 million; and
- release of $0.8 million of the deferred tax valuation allowance due to liquidation of our short term investments.

Working capital changes included:

- a $0.5 million decrease in accounts receivable primarily due to timing of shipments made and timing of collections from customers;
- a $1.0 million net increase in other current and noncurrent assets primarily due to estimated tax payments made;
- a $2.5 million net decrease in accounts payable and $1.3 million decrease in accrued compensation and related benefits primarily due to timing of payments made;
- a $3.3 million increase in deferred income due to timing of products selling through the distribution channels; and
- a $4.0 million net decrease in other current and noncurrent liabilities mainly due to payments made related to iML acquisition.

In the six months ended September 28, 2014, net cash provided by investing activities was $53.8 million. Proceeds of $162.4 million from sales and maturities of investments was offset by $9.3 million purchase of investments, net $72.7 million used for the acquisition of iML, $26.0 million restricted cash and $0.7 million used for purchases of property, plant and equipment.

In the six months ended September 28, 2014, net cash provided by financing activities reflects $91.0 million of proceeds received from Stifel and CTBC short-term financing agreements, $1.9 million of net proceeds associated with our employee stock plans offset by $65 million repayment of Stifel short-term financing agreements, $6.9 million repurchased of our common stocks and $1.0 million repayment of lease financing obligations.

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.

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 Item 303(a)(4) of Regulation S-K. Please see *"Note 15–Commitments and Contingencies"* to the condensed consolidated financial statements for further discussion of our product warranty liabilities and indemnification obligations.

As discussed in *"Note 15–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 28, 2014 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)	$ 24,319	$ 21,273	$ 700	$ 718	$ 1,628
Lease obligations (2)	2,679	1,310	1,194	--	--
Total	$ 26,998	$ 22,583	$ 1,894	$ 718	$ 1,628

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(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 real property leases for our worldwide offices.

Other commitments

As of September 28, 2014, our unrecognized tax benefits were $16.9 million, of which $4.3 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 $1.4 million during the next 12 months as the statute of limitations expires. *See "Note 17 – Income Taxes."*

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of potential economic loss principally arising from adverse changes in the fair value of financial instruments. The major components of market risk affecting us are interest rate risk and foreign currency exchange rate 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 and cash balances being denominated in foreign currencies. 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.

Except for the foreign exchange rate risk, there have been no material changes in the quantitative or qualitative aspect of our market risk profile since March 30, 2014. For additional information regarding our exposure to certain market risks, see Item 7A, *"Quantitative and Qualitative Disclosures About Market Risk,"* in our Annual Report on Form 10-K for the year ended March 30, 2014.

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 (the "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) (the "CEO") and Chief Financial Officer (our principal financial and accounting officer) (the "CFO"), to allow timely decisions regarding required disclosures.

We evaluated the effectiveness of the design and operation of our Disclosure Controls, as defined by the rules and regulations of the SEC (the "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 and accounting 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 (the "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 28, 2014.

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 16– Legal Proceedings*" contained in "*Part I, Item 1. Financial Statements*" is hereby incorporated by reference.

ITEM 1A. RISK FACTORS

The following factors describe risks and uncertainties that could adversely affect our business, financial condition, results of operations, and the market price of our common stock. The risks and uncertainties described below should not be considered to be a complete statement of all potential risks and uncertainties that we face. Additional risks and uncertainties not presently known to us or that we do not currently consider material may also harm our business, financial condition, results of operations or the market price of our common stock. Past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.

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;
- warranty costs related to our product sales;
- the reduction, rescheduling, cancellation or timing of orders by our customers, distributors and channel partners;

- 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 products with few customers and/or distributors;
- volatility of demand for systems 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;
- disruption in customer demand due to technical or quality issues with our devices or components in their system;
- the inability of our customers or their sub-contract manufacturers to obtain components from their other suppliers;
- disruption in sales or distribution channels;
- our ability to maintain and expand distributor relationships;
- changes in sales, design 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 or mature markets;
- the announcement or introduction of products by existing competitors or new competitors;
- loss of market share by us or 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 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 such reasons;

- delays in successful transfer of products or manufacturing processes to or between our subcontractors;
- fluctuations in the product quality or 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;
- 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 the exercise of equity grants;
- an inability to generate profits to utilize net operating losses ("NOLs") prior to their statutory expiration;
- 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 eighteen 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. Unstable 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 pace of 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 on a temporary or permanent basis 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, or competitors with 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 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;
- the possibility of planned acquisitions failing to materialize and not realizing anticipated benefits; 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:

- consequences associated with the recordation or application of various domestic and/or foreign tax regulations;
- exposure to foreign exchange risk associated with acquisition consideration denominated in foreign currencies;
- 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 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.

Our acquisition of iML may significantly impact our business and operations.

On September 15, 2014, we completed our transaction with Integrated Memory Logic Limited. ("iML"), a leading provider of analog mixed-signal solutions for the flat panel display market in Taipei, Taiwan.

We may not successfully utilize or integrate the acquired products, technologies or personnel, or accurately forecast the financial impact of the acquisition, including accounting charges or the impact on our existing business. For example, customers of Exar and iML may not continue to use Exar and iML to the same extent as they would have if iML had remained an independent company, or they may cancel existing agreements. Accordingly, we may not realize the potential benefits of the acquisition.

In addition to these risks, the integration of iML into Exar will be a time-consuming and expensive process and will require us to bear ongoing costs associated with maintaining and supporting the existing iML technology platforms. We may lose key iML employees as a result of the acquisition, which would increase our costs and challenges in supporting the acquired technology. If our integration effort is not successful, if we do not estimate associated costs accurately or if we cannot effectively manage costs, we may not realize anticipated synergies or other benefits of the iML acquisition, or it may take longer to realize these benefits than we currently expect, either of which could materially harm our business or results of operations.

Furthermore, operating decisions may impact existing products and platforms. If any of these decisions are expected to potentially result in the limitation or discontinuation of use of certain assets, we would expect accelerated depreciation and potential impairment of assets including property and equipment, software and website development costs, intangible assets or goodwill.

Finally, any changes in the operating structure of the business post acquisition may result in changes in asset groups, segments, or reporting units which could also result in certain asset impairments.

As a result of our acquisition of iML, we are now subject to additional risks related to iML's business.

As a result of acquiring iML, we are subject to additional risks specific to iML's business, including the following:

- if iML fails to maintain or increase its base of customers who purchase its products, iML's business, results of operations and financial condition would be materially and adversely affected;
- iML may not be able to expand into new geographical markets, adjacent markets in the flat panel display industry or new industry verticals as a result of restrictions in its existing contracts;
- if iML's security measures are compromised, customers may curtail or stop using iML's products;
- iML utilizes certain key technologies third parties and may be unable to replace those technologies if they become obsolete, unavailable or incompatible with its products;
- the software underlying iML's products may be subject to undetected errors, defects or bugs which could adversely affect its business;
- iML may be unable to maintain or grow its base of customers or increase its revenue from its existing customers, in which case its business, results of operations and financial condition will be harmed; and
- iML may not timely and effectively scale and adapt its existing technologies and infrastructure to ensure that its products remain competitive.

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 CMOS processes, bipolar processes, BiCMOS and BCD 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, assert product warranty or damage claims, or be reluctant to continue to buy our products, which could adversely affect our ability to retain and attract new customers. In addition, these errors and defects 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 discontinuance, either on a permanent or temporary basis, 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, so any delay, reduction or elimination of our ability to obtain wafers from this supplier on competitive terms and in the requested quantities 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 temporary or permanent 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 or 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 subjecting us to high fixed costs; 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 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 the People's Republic of China (the “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.

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, 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 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 has in the past and could again in the future 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 and defects, 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 or errors or defects when first introduced, or as new versions are released when manufacturing or process changes are made. If any of our products contain design or production defects, reliability issues or 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 errors or defects could interrupt or delay sales of affected products, which could materially and adversely affect our business, financial condition and results of operations.

If errors or defects 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 28, 2014, 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 10% 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, Future, our largest distributor, is an affiliate of Alonim, 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 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.

A breach of our security systems may have a material adverse effect on our business.

Our information systems are designed to maintain and protect our customers', suppliers' and employees' confidential and business intelligence data as well as our proprietary information and technology. We may experience cyber-attacks and other security breaches, and as a result, unauthorized parties may obtain access to our information systems. Cyber-attacks and security vulnerabilities could lead to reduced revenue, increased costs, liability claims or harm our or business partners' competitive position. Any significant system or network disruption, including but not limited to, new system implementations, computer viruses or worms, security breaches or unexpected energy blackouts could have a material adverse impact on our operations, sales and operating results. Maintaining the security integrity of our enterprise network is paramount for us, our customers and our suppliers. We have implemented measures to manage, monitor and detect our risks related to such disruptions, but despite precautionary efforts such disruptions could still occur and negatively impact our operations and financial results. In addition, we may incur additional costs to remedy any damages caused by these disruptions or security breaches.

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 or there may not be an effective judicial remedy. 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, estimates 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, intangible assets, goodwill, long-lived assets and contingent consideration liabilities 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 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 concentrated customer revenue.

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 SEC issued final rules for compliance with Section 1502 of the Dodd-Frank Act, and outlined what U.S. publicly-traded companies 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) and other listed 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 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. Our customers, including our OEM customers, may require that our products contain only conflict mineral free 3TG, and our revenues and margins may be harmed if we are unable to meet this requirement at a reasonable price, or at all, or are unable to pass through any increased costs associated with meeting this requirement. Furthermore, on September 15, 2014 we completed our merger with iML and are evaluating iML's use, if any, of conflict minerals in its products. We may suffer reputational harm with our customers and other stakeholders if our products (including iML's products) are not conflict mineral free or if we are unable to sufficiently verify the origins of the 3TG contained in our products through the due diligence procedures that we implement. We could incur significant costs to the extent that we are required to make changes to products, processes or sources of supply due to the foregoing requirements or pressures.

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, 2014	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				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
2.1	Form of Merger Agreement	8-K	0-14225	2.1	4/30/2014	
2.2	Form of Tender Agreement	8-K	0-14225	2.2	4/30/2014	
10.1	Bridge Credit Agreement, dated May 27, 2014	8-K	0-14225	10.1	5/30/2014	
10.2	Form of Parent Agreement	8-K	0-14225	10.1	4/30/2014	
10.3	Form of Tender Agreement	8-K	0-14225	10.2	4/30/2014	
10.4	2014 Equity Incentive Plan	8-K	0-14225	10.1	9/22/2014	
10.5	Form of Restricted Stock Unit Agreement					X
10.6	Form of Performance Stock Unit Agreement					X
10.7	Form of NQSO Agreement					X
10.8	Form of ISO 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

Exhibit 10.5

EXAR CORPORATION
2014 EQUITY INCENTIVE PLAN
STOCK UNIT AWARD AGREEMENT

THIS STOCK UNIT AWARD AGREEMENT (this "**Agreement**") is dated as of **%%OPTION_DATE,'Month DD, YYYY'%-%** by and between Exar Corporation, a Delaware corporation (the "**Company**"), and **%%FIRST_NAME%-% % %MIDDLE_NAME%-% %%LAST_NAME%-%** (the "**Participant**").

W I T N E S S E T H

WHEREAS, pursuant to the Exar Corporation 2014 Equity Incentive Plan (the "**Plan**"), the Company has granted to the Participant effective as of the date hereof (the "**Award Date**"), a credit of 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 Participant, and the mutual promises made herein and the mutual benefits to be derived therefrom, the parties agree as follows:

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

2. Grant. Subject to the terms of this Agreement, the Company hereby grants to the Participant an Award with respect to an aggregate of **%%TOTAL_SHARES_GRANTED,'999,999,999'%-%** 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 Company'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 Participant 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. Vesting. Subject to Section 8 below, the Award shall vest and become nonforfeitable (subject to adjustment under Section 7.1 of the Plan) per the vesting schedule shown here:

Shares	Vest Date
%%SHARESPERIOD1,'999,999,999'%-%	%%VESTDATEPERIOD1,'Month DD, YYYY'%-%
%%SHARESPERIOD2,'999,999,999'%-%	%%VESTDATEPERIOD2,'Month DD, YYYY'%-%
%%SHARESPERIOD3,'999,999,999'%-%	%%VESTDATEPERIOD3,'Month DD, YYYY'%-%
%%SHARESPERIOD4,'999,999,999'%-%	%%VESTDATEPERIOD4,'Month DD, YYYY'%-%

4. 4. Continuance of Employment/Service Required; No Employment/Service Commitment. The vesting schedule requires continued employment or 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. Employment or service for only a portion of the vesting period, even if a substantial portion, will not entitle the Participant to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment or services as provided in Section 8 below or under the Plan.

Nothing contained in this Agreement or the Plan constitutes an employment or service commitment by the Company, affects the Participant's status as an employee at will who is subject to termination without cause, confers upon the Participant any right to remain employed by or in service to the Company or any Subsidiary, interferes in any way with the right of the Company or any Subsidiary at any time to terminate such employment or services, or affects the right of the Company or any Subsidiary to increase or decrease the Participant's other compensation or benefits. Nothing in this paragraph, however, is intended to adversely affect any independent contractual right of the Participant without his consent thereto.

5. Dividend and Voting Rights.

(a) **Limitations on Rights Associated with Units**. The Participant shall have no rights as a stockholder of the Company, 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 Participant. 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 Company pays an ordinary cash dividend on its Common Stock, the Company shall credit the Participant with an additional number of Stock Units equal to (i) the per share cash dividend paid by the Company 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. ***[Note that we've changed this provision so that dividend equivalents will be credited as additional stock units that are subject to the same vesting requirements as the original stock units under the award (as opposed to dividend equivalents being paid out in cash even if the underlying stock units have not yet vested). This change is required for performance RSUs under the 2014 plan (to conform with ISS' policies). This change isn't required for time-based RSUs, but we think it makes sense to have the same dividend equivalents rule apply to both time-based and performance-based RSUs.]***

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 Company, 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 each vesting of the applicable portion of the total 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 vesting date), the Company shall deliver to the Participant 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 Company 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 Company'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 Participant or other person entitled under the Plan to receive any shares with respect to the vested Stock Units deliver to the Company any representations or other documents or assurances required pursuant to Section 8.1 of the Plan. The Participant 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 Employment. The Participant's Stock Units shall terminate to the extent such units have not become vested prior to the first date the Participant is no longer employed by the Company or one of its Subsidiaries, regardless of the reason for the termination of the Participant's employment with the Company or a Subsidiary, whether with or without cause, voluntarily or involuntarily. 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 Company and without any other action by the Participant, or the Participant's beneficiary or personal representative, as the case may be.

9. Adjustments Upon Specified Events. Upon the occurrence of certain events relating to the Company'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 in accordance with such section 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 equivalents are 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 Company 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 Company or its Subsidiaries with respect to such distribution of shares at the minimum applicable withholding rates. In the event that the Company 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 Company (or a Subsidiary) shall be entitled to require a cash payment by or on behalf of the Participant and/or to deduct from other compensation payable to the Participant 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 Company at its principal office to the attention of the Secretary, and to the Participant at the Participant's last address reflected on the Company'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 Participant is no longer an employee of the Company, shall be deemed to have been duly given by the Company 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 Participant under this Agreement are subject to the terms and conditions of the provisions of the Plan, incorporated herein by reference. The Participant agrees to be bound by the terms of the Plan and this Agreement. The Participant 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 Board or the Administrator do not (and shall not be deemed to) create any rights in the Participant 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.

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 Company. The Company may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Participant 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 Participant'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 Company 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 Participant shall have only the rights of a general unsecured creditor of the Company 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. The Agreement shall be construed and interpreted consistent with that intent.

19. **Clawback Policy**. The Stock Units are subject to the terms of the Company's recoupment, clawback or similar policy as it may be in effect from time to time, as well as any similar provisions of applicable law, any of which could in certain circumstances require repayment or forfeiture of the Stock Units or any shares of Common Stock or other cash or property received with respect to the Stock Units (including any value received from a disposition of the shares acquired upon payment of the Stock Units).

20. **No Advice Regarding Grant**. The Participant is hereby advised to consult with his or her own tax, legal and/or investment advisors with respect to any advice the Participant may determine is needed or appropriate with respect to the Stock Units (including, without limitation, to determine the foreign, state, local, estate and/or gift tax consequences with respect to the Award). Neither the Company nor any of its officers, directors, affiliates or advisors makes any representation (except for the terms and conditions expressly set forth in this Agreement) or recommendation with respect to the Award. Except for the withholding rights set forth in Section 10 above, the Participant is solely responsible for any and all tax liability that may arise with respect to the Award.

[Remainder of page intentionally left blank]

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

EXAR CORPORATION, **a Delaware corporation**	**PARTICIPANT**
By:__________________________________ Print Name:___________________________ Its:__________________________________	___________________________________ *Signature* ____________________________________ *Print Name*

Exhibit 10.6

EXAR CORPORATION
2014 EQUITY INCENTIVE PLAN
PERFORMANCE STOCK UNIT AWARD AGREEMENT

THIS PERFORMANCE STOCK UNIT AWARD AGREEMENT (this "**Agreement**") is dated as of **[______________]** by and between Exar Corporation, a Delaware corporation (the "**Company**"), and **[____________]** (the "**Participant**").

W I T N E S S E T H

WHEREAS, pursuant to the Exar Corporation 2014 Equity Incentive Plan (the "**Plan**"), the Company has granted to the Participant effective as of the date hereof (the "**Award Date**"), a credit of performance 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 Participant, and the mutual promises made herein and the mutual benefits to be derived therefrom, the parties agree as follows:

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

2. **Grant**. Subject to the terms of this Agreement, the Company hereby grants to the Participant an Award with respect to an aggregate of **[_________]** performance 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 Company'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 Participant 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. **Vesting**. Subject to Section 8 below, the Award shall vest and become nonforfeitable based on the achievement of the performance goals established by the Administrator and set forth on Exhibit A attached hereto for the "**Performance Period**" identified therein. The number of Stock Units that vest and become payable under this Agreement shall be determined based on the level of results or achievement of targets for the performance goals set forth on Exhibit A. Any Stock Units subject to the Award that do not vest in accordance with Exhibit A shall terminate.

4. **Continuance of Employment/Service Required; No Employment/Service Commitment**. The vesting schedule requires continued employment or 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. Employment or service for only a portion of the vesting period, even if a substantial portion, will not entitle the Participant to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment or services as provided in Section 8 below or under the Plan.

Nothing contained in this Agreement or the Plan constitutes an employment or service commitment by the Company, affects the Participant's status as an employee at will who is subject to termination without cause, confers upon the Participant any right to remain employed by or in service to the Company or any Subsidiary, interferes in any way with the right of the Company or any Subsidiary at any time to terminate such employment or services, or affects the right of the Company or any Subsidiary to increase or decrease the Participant's other compensation or benefits. Nothing in this paragraph, however, is intended to adversely affect any independent contractual right of the Participant without his consent thereto.

5. **Dividend and Voting Rights**.

(a) **Limitations on Rights Associated with Units**. The Participant shall have no rights as a stockholder of the Company, 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 Participant. 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 Company pays an ordinary cash dividend on its Common Stock, the Company shall credit the Participant with an additional number of Stock Units equal to (i) the per share cash dividend paid by the Company 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 Company, or (b) transfers by will or the laws of descent and distribution.

7. **Timing and Manner of Payment of Stock Units**. As soon as administratively practical following the Performance Period, the Administrator shall determine the number of Stock Units (if any) that have vested pursuant to Section 3. On or as soon as practicable after the date of such determination (and in all events within two and one-half (2 1/2) months after the end of the Performance Period), or in the case of accelerated vesting of the Award pursuant to Section 7 of the Plan, as soon as administratively practicable after (and in all events within two and one-half (2 1/2) months after) the date of such acceleration event, the Company shall deliver to the Participant 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 Company 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 such vesting date pursuant to Section 8. The Company'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 Participant or other person entitled under the Plan to receive any shares with respect to the vested Stock Units deliver to the Company any representations or other documents or assurances required pursuant to Section 8.1 of the Plan. The Participant 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 Employment.** The Participant's Stock Units shall terminate to the extent such units have not become vested prior to the first date the Participant is no longer employed by the Company or one of its Subsidiaries, regardless of the reason for the termination of the Participant's employment with the Company or a Subsidiary, whether with or without cause, voluntarily or involuntarily. 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 Company and without any other action by the Participant, or the Participant's beneficiary or personal representative, as the case may be.

9. **Adjustments Upon Specified Events**. Upon the occurrence of certain events relating to the Company'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 in accordance with such section 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 equivalents are credited pursuant to Section 5(b). Furthermore, the Administrator shall adjust the performance measures and performance goals referenced in Section 3 hereof to the extent (if any) it determines that the adjustment is necessary or advisable to preserve the intended incentives and benefits to reflect (1) any material change in corporate capitalization, any material corporate transaction (such as a reorganization, combination, separation, merger, acquisition, or any combination of the foregoing), or any complete or partial liquidation of the Company, (2) any change in accounting policies or practices, (3) the effects of any special charges to the Company's earnings, or (4) any other similar special circumstances.

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 Company 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 Company or its Subsidiaries with respect to such distribution of shares at the minimum applicable withholding rates. In the event that the Company 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 Company (or a Subsidiary) shall be entitled to require a cash payment by or on behalf of the Participant and/or to deduct from other compensation payable to the Participant 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 Company at its principal office to the attention of the Secretary, and to the Participant at the Participant's last address reflected on the Company'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 Participant is no longer an employee of the Company, shall be deemed to have been duly given by the Company 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 Participant under this Agreement are subject to the terms and conditions of the provisions of the Plan, incorporated herein by reference. The Participant agrees to be bound by the terms of the Plan and this Agreement. The Participant 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 Board or the Administrator do not (and shall not be deemed to) create any rights in the Participant 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.

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 Company. The Company may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Participant 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 Participant'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 Company 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 Participant shall have only the rights of a general unsecured creditor of the Company 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. The Agreement shall be construed and interpreted consistent with that intent.

19. **Clawback Policy**. The Stock Units are subject to the terms of the Company's recoupment, clawback or similar policy as it may be in effect from time to time, as well as any similar provisions of applicable law, any of which could in certain circumstances require repayment or forfeiture of the Stock Units or any shares of Common Stock or other cash or property received with respect to the Stock Units (including any value received from a disposition of the shares acquired upon payment of the Stock Units).

20. **No Advice Regarding Grant**. The Participant is hereby advised to consult with his or her own tax, legal and/or investment advisors with respect to any advice the Participant may determine is needed or appropriate with respect to the Stock Units (including, without limitation, to determine the foreign, state, local, estate and/or gift tax consequences with respect to the Award). Neither the Company nor any of its officers, directors, affiliates or advisors makes any representation (except for the terms and conditions expressly set forth in this Agreement) or recommendation with respect to the Award. Except for the withholding rights set forth in Section 10 above, the Participant is solely responsible for any and all tax liability that may arise with respect to the Award.

[Remainder of page intentionally left blank]

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

EXAR CORPORATION, **a Delaware corporation**	**PARTICIPANT**
By:_________________________________	___________________________________ *Signature*
Print Name:___________________________	
Its:_________________________________	___________________________________ *Print Name*

EXHIBIT A

PERFORMANCE-BASED VESTING REQUIREMENTS

Subject to Sections 8 and 9 of this Agreement, the number of Stock Units subject to the Award that vest and become non-forfeitable shall be determined as provided in this Exhibit A.

[AOP Revenue. If Exar Corporation meets or exceeds its Fiscal Year 2010 revenue target as defined in the Annual Operating Plan (AOP), then the Stock Units subject to the Award shall vest as follows:

Date	Shares Vesting
7/1/10	33 1/3% of award
7/1/11	33 1/3% of award
7/1/12	33 1/3% of award

If the Fiscal Year 2010 revenue targets are not met, then all Stock Units subject to the Award shall terminate effective June 30, 2010.]
[Performance vesting requirements to be established and set forth in this exhibit A at the time of grant of the award.]

Exhibit 10.7

Notice of Grant of Stock Option and Terms and Conditions of Stock Option

Exar Corporation
ID: 941741481
48720 Kato Road
Fremont, CA 94538

Grantee:	**%%FIRST_NAME%-% %%MIDDLE_NAME%-% %%LAST_NAME%-%** **%%ADDRESSLINE1%-%** **%%ADDRESSLINE2%-%** **%%CITY%-%, %%STATE%-%** **%%ZIPCODE%-%**	**Option Number:** **Plan:** **ID:**	**%%OPTION_NUMBER%-%** **%%EQUIT%%EMPLOYEE_IDENTIFIER%-%** **%%EMPLOYEE_IDENTIFIER%-%**

Effective %%OPTION_DATE,'Month DD, YYYY'%-% (the "Award Date"), you (the "Grantee") have been granted a Nonqualified Stock Option (the "Option") to buy %%TOTAL_SHARES_GRANTED,'999,999,999'%-% shares[1] of Common Stock of Exar Corporation (the "Company") at a price of $%%OPTION_PRICE,'$999,999,999.99'%-% per share[1] (the "Exercise Price").

The aggregate Exercise Price of the shares subject to the Option is $%%TOTAL_OPTION_PRICE,'$999,999,999.99'%-%.[1]

Vesting Schedule:[1, 2]

Shares	Vest Date
%%SHARESPERIOD1,'999,999,999'%-%	%%VESTDATEPERIOD1,'Month DD, YYYY'%-%
%%SHARESPERIOD2,'999,999,999'%-%	%%VESTDATEPERIOD2,'Month DD, YYYY'%-%
%%SHARESPERIOD3,'999,999,999'%-%	%%VESTDATEPERIOD3,'Month DD, YYYY'%-%
%%SHARESPERIOD4,'999,999,999'%-%	%%VESTDATEPERIOD4,'Month DD, YYYY'%-%

The Option will expire on %%EXPIRE_DATE_PERIOD1,'Month DD, YYYY'%-% (the "Expiration Date"). [1, 2]

Both you and the Company understand and agree that the Option is granted under and governed by the terms and conditions of the Company's 2014 Equity Incentive Plan (the "Plan") and the Terms and Conditions of Nonqualified Stock Option (the "Terms"), which are attached and incorporated herein by this reference. This Notice of Grant of Stock Option, together with the Terms, will be referred to as your Option Agreement. The Option has been granted to you in addition to, and not in lieu of, any other form of compensation otherwise payable or to be paid to you. Capitalized terms are defined in the Plan if not defined herein or in the Terms. You acknowledge receipt of a copy of the Terms and the Plan.

[1] Subject to adjustment under Section 7.1 of the Plan.
[2] Subject to early termination under Section 5 of the Terms and Section 7.2 of the Plan.

EXAR CORPORATION
2014 EQUITY INCENTIVE PLAN
TERMS AND CONDITIONS OF NONQUALIFIED STOCK OPTION

1. General.

These Terms and Conditions of Nonqualified Stock Option (these "**Terms**") apply to a particular stock option (the "**Option**") if incorporated by reference in the Notice of Grant of Stock Option (the "**Grant Notice**") corresponding to that particular grant. The recipient of the Option identified in the Grant Notice is referred to as the "**Grantee**." The per share exercise price of the Option as set forth in the Grant Notice is referred to as the "**Exercise Price**." The effective date of grant of the Option as set forth in the Grant Notice is referred to as the "**Award Date**." The exercise price and the number of shares covered by the Option are subject to adjustment under Section 7.1 of the Plan.

The Option was granted under and subject to the Exar Corporation 2014 Equity Incentive Plan (the "**Plan**"). Capitalized terms are defined in the Plan if not defined herein. The Option has been granted to the Grantee in addition to, and not in lieu of, any other form of compensation otherwise payable or to be paid to the Grantee. The Grant Notice and these Terms are collectively referred to as the "**Option Agreement**" applicable to the Option.

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

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 Grant Notice. The Option may be exercised only to the extent the Option is vested and exercisable.

- Cumulative Exercisability. To the extent that the Option is vested and exercisable, the Grantee 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.

3. Continuance of Employment/Service Required; No Employment/Service Commitment.

The vesting schedule applicable to the Option requires continued employment or 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. Employment or service for only a portion of the vesting period, even if a substantial portion, will not entitle the Grantee to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment or services as provided in Section 5 below or under the Plan.

Nothing contained in this Option Agreement or the Plan constitutes a continued employment or service commitment by the Company or any of its Subsidiaries, affects the Grantee's status, if he or she is an employee, as an employee at will who is subject to termination without cause, confers upon the Grantee any right to remain employed by or in service to the Company or any Subsidiary, interferes in any way with the right of the Company or any Subsidiary at any time to terminate such employment or service, or affects the right of the Company or any Subsidiary to increase or decrease the Grantee's other compensation.

4. Method of Exercise of Option.

The Option shall be exercisable by the delivery to the Secretary of the Company (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 Company, 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 Grantee, 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.

5. Early Termination of Option.

5.1 Expiration Date. Subject to earlier termination as provided below in this Section 5, the Option will terminate on the "Expiration Date" set forth in the Grant Notice (the "**Expiration Date**").

5.2 Possible Termination of Option upon Certain Corporate Events. The Option is subject to termination in connection with certain corporate events as provided in Section 7.2 of the Plan.

5.3 Termination of Option upon a Termination of Grantee's Employment or Services. Subject to earlier termination on the Expiration Date of the Option or pursuant to Section 5.2 above, if the Grantee ceases to be employed by or ceases to provide services to the Company or a Subsidiary, the following rules shall apply (the last day that the Grantee is employed by or provides services to the Company or a Subsidiary is referred to as the Grantee's "**Severance Date**"):

- other than as expressly provided below in this Section 5.3, (a) the Grantee will have until the date that is six (6) 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 6-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 6-month period;

- if the termination of the Grantee's employment or services is the result of the Grantee's death or Total Disability (as defined below), (a) the Grantee (or his beneficiary or personal representative, as the case may be) will have until the date that is twelve (12) months after the Grantee'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;

- if the Grantee's employment or services are terminated by the Company or a Subsidiary for Cause (as defined below), the Option (whether vested or not) shall terminate on the Severance Date.

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).

For purposes of the Option, "**Cause**" means that the Grantee:

(1) has been negligent in the discharge of his or her duties to the Company or any of its Subsidiaries, has refused to perform stated or assigned duties or is incompetent in or (other than by reason of a disability or analogous condition) incapable of performing those duties;

(2) has been dishonest or committed or engaged in an act of theft, embezzlement or fraud, a breach of confidentiality, an unauthorized disclosure or use of inside information, customer lists, trade secrets or other confidential information; has breached a fiduciary duty, or willfully and materially violated any other duty, law, rule, regulation or policy of the Company, any of its Subsidiaries or any affiliate of the Company or any of its Subsidiaries; or has been convicted of a felony or misdemeanor (other than minor traffic violations or similar offenses);

(3) has materially breached any of the provisions of any agreement with the Company, any of its Subsidiaries or any affiliate of the Company or any of its Subsidiaries; or

(4) has engaged in unfair competition with, or otherwise acted intentionally in a manner injurious to the reputation, business or assets of, the Company, any of its Subsidiaries or any affiliate of the Company or any of its Subsidiaries; has improperly induced a vendor or customer to break or terminate any contract with the Company, any of its Subsidiaries or any affiliate of the Company or any of its Subsidiaries; or has induced a principal for whom the Company, any of its Subsidiaries or any affiliate of the Company or any of its Subsidiaries acts as agent to terminate such agency relationship.

In all events the Option is subject to earlier termination on the Expiration Date of the Option or as contemplated by Section 5.2. The Administrator shall be the sole judge of whether the Grantee continues to render employment or services for purposes of this Option Agreement.

6. Non-Transferability.

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

7. Notices.

Any notice to be given under the terms of this Option Agreement shall be in writing and addressed to the Company at its principal office to the attention of the Secretary, and to the Grantee at the address last reflected on the Company'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 Grantee is no longer employed by the Company or a Subsidiary, shall be deemed to have been duly given five business days after the date mailed in accordance with the foregoing provisions of this Section 7.

8. Plan.

The Option and all rights of the Grantee under this Option Agreement are subject to the terms and conditions of the Plan, incorporated herein by this reference. The Grantee agrees to be bound by the terms of the Plan and this Option Agreement. The Grantee 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 Grantee 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.

9. <u>Entire Agreement</u>.

This Option 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 Option Agreement may be amended pursuant to Section 8.6 of the Plan. Such amendment must be in writing and signed by the Company. The Company may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Grantee 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.

10. <u>Governing Law</u>.

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.

11. <u>Effect of this Agreement</u>.

Subject to the Company'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 Company.

12. <u>Counterparts</u>.

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.

13. <u>Section Headings</u>.

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.

14. <u>Clawback Policy</u>.

The Option is subject to the terms of the Company's recoupment, clawback or similar policy as it may be in effect from time to time, as well as any similar provisions of applicable law, any of which could in certain circumstances require forfeiture of the Option and repayment or forfeiture of any shares of Common Stock or other cash or property received with respect to the Option (including any value received from a disposition of the shares acquired upon exercise of the Option).

15. <u>No Advice Regarding Grant</u>.

The Grantee is hereby advised to consult with his or her own tax, legal and/or investment advisors with respect to any advice the Grantee may determine is needed or appropriate with respect to the Option (including, without limitation, to determine the foreign, state, local, estate and/or gift tax consequences with respect to the Option and any shares that may be acquired upon exercise of the Option). Neither the Company nor any of its officers, directors, affiliates or advisors makes any representation (except for the terms and conditions expressly set forth in this Option Agreement) or recommendation with respect to the Option. Except for the withholding rights contemplated by Section 8.5 of the Plan, the Grantee is solely responsible for any and all tax liability that may arise with respect to the Option and any shares that may be acquired upon exercise of the Option.

Notice of Grant of Stock Option and Terms and Conditions of Stock Option

Exar Corporation
ID: 941741481
48720 Kato Road
Fremont, CA 94538

Grantee: **%%FIRST_NAME%-% %%MIDDLE_NAME%-% %%LAST_NAME%-%**

%%ADDRESSLINE1%-%
%%ADDRESSLINE2%-%
%%CITY%-%, %%STATE%-%
%%ZIPCODE%-%

Option Number: **%%OPTION_NUMBER%-%**
Plan: **%%EQUITY_PLAN%-%**
ID: **%%EMPLOYEE_IDENTIFIER%-%**

Effective %%OPTION_DATE,'Month DD, YYYY'%-% (the "Award Date"), you (the "Grantee") have been granted an Incentive Stock Option (the "Option") to buy %%TOTAL_SHARES_GRANTED,'999,999,999'%-% shares[1] of Common Stock of Exar Corporation (the "Company") at a price of $%%OPTION_PRICE,'$999,999,999.99'%-% per share[1] (the "Exercise Price").

The aggregate Exercise Price of the shares subject to the Option is $%%TOTAL_OPTION_PRICE,'$999,999,999.99'%-%.[1]

Vesting Schedule:[1, 2]

Shares	Vest Date
%%SHARESPERIOD1,'999,999,999'%-%	%%VESTDATEPERIOD1,'Month DD, YYYY'%-%
%%SHARESPERIOD2,'999,999,999'%-%	%%VESTDATEPERIOD2,'Month DD, YYYY'%-%
%%SHARESPERIOD3,'999,999,999'%-%	%%VESTDATEPERIOD3,'Month DD, YYYY'%-%
%%SHARESPERIOD4,'999,999,999'%-%	%%VESTDATEPERIOD4,'Month DD, YYYY'%-%

The Option will expire on %%EXPIRE_DATE_PERIOD1,'Month DD, YYYY'%-% (the "Expiration Date"). [1, 2]

Both you and the Company understand and agree that the Option is granted under and governed by the terms and conditions of the Company's 2014 Equity Incentive Plan (the "Plan") and the Terms and Conditions of Incentive Stock Option (the "Terms"), which are attached and incorporated herein by this reference. This Notice of Grant of Stock Option, together with the Terms, will be referred to as your Option Agreement. The Option has been granted to you in addition to, and not in lieu of, any other form of compensation otherwise payable or to be paid to you. Capitalized terms are defined in the Plan if not defined herein or in the Terms. You acknowledge receipt of a copy of the Terms and the Plan.

[1] Subject to adjustment under Section 7.1 of the Plan.
[2] Subject to early termination under Section 5 of the Terms and Section 7.2 of the Plan.

EXAR CORPORATION
2014 EQUITY INCENTIVE PLAN
TERMS AND CONDITIONS OF INCENTIVE STOCK OPTION

1. General.

These Terms and Conditions of Incentive Stock Option (these "**Terms**") apply to a particular stock option (the "**Option**") if incorporated by reference in the Notice of Grant of Stock Option (the "**Grant Notice**") corresponding to that particular grant. The recipient of the Option identified in the Grant Notice is referred to as the "**Grantee**." The per share exercise price of the Option as set forth in the Grant Notice is referred to as the "**Exercise Price**." The effective date of grant of the Option as set forth in the Grant Notice is referred to as the "**Award Date**." The exercise price and the number of shares covered by the Option are subject to adjustment under Section 7.1 of the Plan.

The Option was granted under and subject to the Exar Corporation 2014 Equity Incentive Plan (the "**Plan**"). Capitalized terms are defined in the Plan if not defined herein. The Option has been granted to the Grantee in addition to, and not in lieu of, any other form of compensation otherwise payable or to be paid to the Grantee. The Grant Notice and these Terms are collectively referred to as the "Option Agreement" applicable to the Option.

2. Vesting; Limits on Exercise.

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 Grant Notice. The Option may be exercised only to the extent the Option is vested and exercisable.

- Cumulative Exercisability. To the extent that the Option is vested and exercisable, the Grantee 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.

- ISO Value Limit. If the aggregate fair market value of the shares with respect to which ISOs (whether granted under the Option or otherwise) first become exercisable by the Grantee in any calendar year exceeds $100,000, as measured on the applicable Award Dates, the limitations of Section 5.1.2 of the Plan shall apply and to such extent the Option will be rendered a nonqualified stock option.

3. Continuance of Employment/Service Required; No Employment/Service Commitment.

The vesting schedule applicable to the Option requires continued employment or 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. Employment or service for only a portion of the vesting period, even if a substantial portion, will not entitle the Grantee to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment or services as provided in Section 5 below or under the Plan.

Nothing contained in this Option Agreement or the Plan constitutes a continued employment or service commitment by the Company or any of its Subsidiaries, affects the Grantee's status, if he or she is an employee, as an employee at will who is subject to termination without cause, confers upon the Grantee any right to remain employed by or in service to the Company or any Subsidiary, interferes in any way with the right of the Company or any Subsidiary at any time to terminate such employment or service, or affects the right of the Company or any Subsidiary to increase or decrease the Grantee's other compensation.

4. Method of Exercise of Option.

The Option shall be exercisable by the delivery to the Secretary of the Company (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 Company, 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 Grantee, 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.

The Option will qualify as an ISO only if it meets all of the applicable requirements of the Code. The Option may be rendered a nonqualified stock option if the Administrator permits the use of one or more of the non-cash payment alternatives referenced above.

5. <u>Early Termination of Option</u>.

5.1 Expiration Date. Subject to earlier termination as provided below in this Section 5, the Option will terminate on the "Expiration Date" set forth in the Grant Notice (the "**Expiration Date**").

5.2 Possible Termination of Option upon Certain Corporate Events. The Option is subject to termination in connection with certain corporate events as provided in Section 7.2 of the Plan.

5.3 Termination of Option upon a Termination of Grantee's Employment or Services. Subject to earlier termination on the Expiration Date of the Option or pursuant to Section 5.2 above, if the Grantee ceases to be employed by or ceases to provide services to the Company or a Subsidiary, the following rules shall apply (the last day that the Grantee is employed by or provides services to the Company or a Subsidiary is referred to as the Grantee's "**Severance Date**"):

- other than as expressly provided below in this Section 5.3, (a) the Grantee will have until the date that is six (6) 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 6-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 6-month period;

- if the termination of the Grantee's employment or services is the result of the Grantee's death or Total Disability (as defined below), (a) the Grantee (or his beneficiary or personal representative, as the case may be) will have until the date that is twelve (12) months after the Grantee'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;

- if the Grantee's employment or services are terminated by the Company or a Subsidiary for Cause (as defined below), the Option (whether vested or not) shall terminate on the Severance Date.

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).

For purposes of the Option, "**Cause**" means that the Grantee:

(1) has been negligent in the discharge of his or her duties to the Company or any of its Subsidiaries, has refused to perform stated or assigned duties or is incompetent in or (other than by reason of a disability or analogous condition) incapable of performing those duties;

(2) has been dishonest or committed or engaged in an act of theft, embezzlement or fraud, a breach of confidentiality, an unauthorized disclosure or use of inside information, customer lists, trade secrets or other confidential information; has breached a fiduciary duty, or willfully and materially violated any other duty, law, rule, regulation or policy of the Company, any of its Subsidiaries or any affiliate of the Company or any of its Subsidiaries; or has been convicted of a felony or misdemeanor (other than minor traffic violations or similar offenses);

(3) has materially breached any of the provisions of any agreement with the Company, any of its Subsidiaries or any affiliate of the Company or any of its Subsidiaries; or

(4) has engaged in unfair competition with, or otherwise acted intentionally in a manner injurious to the reputation, business or assets of, the Company, any of its Subsidiaries or any affiliate of the Company or any of its Subsidiaries; has improperly induced a vendor or customer to break or terminate any contract with the Company, any of its Subsidiaries or any affiliate of the Company or any of its Subsidiaries; or has induced a principal for whom the Company, any of its Subsidiaries or any affiliate of the Company or any of its Subsidiaries acts as agent to terminate such agency relationship.

In all events the Option is subject to earlier termination on the Expiration Date of the Option or as contemplated by Section 5.2. The Administrator shall be the sole judge of whether the Grantee continues to render employment or services for purposes of this Option Agreement.

Notwithstanding any post-termination exercise period provided for herein or in the Plan, the Option will qualify as an ISO only if it is exercised within the applicable exercise periods for ISOs under, and meets all of the other requirements of, the Code. If the Option is not exercised within the applicable exercise periods for ISOs or does not meet such other requirements, the Option will be rendered a nonqualified stock option.

6. <u>Non-Transferability</u>.

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

7. <u>Notices</u>.

Any notice to be given under the terms of this Option Agreement shall be in writing and addressed to the Company at its principal office to the attention of the Secretary, and to the Grantee at the address last reflected on the Company'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 Grantee is no longer employed by the Company or a Subsidiary, shall be deemed to have been duly given five business days after the date mailed in accordance with the foregoing provisions of this Section 7.

8. Plan.

The Option and all rights of the Grantee under this Option Agreement are subject to the terms and conditions of the Plan, incorporated herein by this reference. The Grantee agrees to be bound by the terms of the Plan and this Option Agreement. The Grantee 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 Grantee 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.

9. Entire Agreement.

This Option 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 Option Agreement may be amended pursuant to Section 8.6 of the Plan. Such amendment must be in writing and signed by the Company. The Company may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Grantee 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.

10. 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.

11. Effect of this Agreement.

Subject to the Company’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 Company.

12. 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.

13. 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.

14. Clawback Policy.

The Option is subject to the terms of the Company's recoupment, clawback or similar policy as it may be in effect from time to time, as well as any similar provisions of applicable law, any of which could in certain circumstances require forfeiture of the Option and repayment or forfeiture of any shares of Common Stock or other cash or property received with respect to the Option (including any value received from a disposition of the shares acquired upon exercise of the Option).

15. No Advice Regarding Grant.

The Grantee is hereby advised to consult with his or her own tax, legal and/or investment advisors with respect to any advice the Grantee may determine is needed or appropriate with respect to the Option (including, without limitation, to determine the foreign, state, local, estate and/or gift tax consequences with respect to the Option and any shares that may be acquired upon exercise of the Option). Neither the Company nor any of its officers, directors, affiliates or advisors makes any representation (except for the terms and conditions expressly set forth in this Option Agreement) or recommendation with respect to the Option. Except for the withholding rights contemplated by Section 8.5 of the Plan, the Grantee is solely responsible for any and all tax liability that may arise with respect to the Option and any shares that may be acquired upon exercise of the Option.

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, 2014

/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, 2014

/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 28, 2014 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, 2014

/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 28, 2014 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, 2014

/s/ Ryan A. Benton

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