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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 June 27, 2010

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 44,208,770 as of July 30, 2010, net of 19,924,369 treasury shares.

EXAR CORPORATION AND SUBSIDIARIES

INDEX TO

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 27, 2010

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EXAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)
(Unaudited)

	June 27, 2010	March 28, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,063	$ 25,486
Short-term marketable securities	199,098	186,598
Accounts receivable (net of allowances of $726 and $831)	14,606	13,461
Accounts receivable, related party (net of allowances of $288 and $605)	3,590	4,323
Inventories	18,814	15,000
Other current assets	5,307	5,106
Total current assets	250,478	249,974
Property, plant and equipment, net	43,407	42,941
Goodwill	3,184	3,085
Intangible assets, net	29,088	31,957
Other non-current assets	4,944	5,357
Total assets	$ 331,101	$ 333,314
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 11,179	$ 9,828
Accrued compensation and related benefits	6,454	6,619
Deferred income and allowances on sales to distributors	4,645	4,227
Deferred income and allowances on sales to distributors, related party	11,103	10,650
Short-term lease financing obligations	4,009	3,540
Other accrued expenses	6,755	7,058
Total current liabilities	44,145	41,922
Long-term lease financing obligations	13,447	13,454
Other non-current obligations	3,815	3,806
Total liabilities	$ 61,407	$ 59,182
Commitments and contingencies (Notes 15 and 16)		
Stockholders' equity:		
Preferred stock, $.0001 par value; 2,250,000 shares authorized; no shares outstanding	$ —	$ —
Common stock, $.0001 par value; 100,000,000 shares authorized; 43,974,981 and 43,839,514 shares outstanding at June 27, 2010 and March 28, 2010, respectively	4	4
Additional paid-in capital	723,929	720,455
Accumulated other comprehensive income	784	1,282
Treasury stock at cost, 19,924,369 shares at June 27, 2010 and March 28, 2010	(248,983)	(248,983)
Accumulated deficit	(206,040)	(198,626)
Total stockholders' equity	269,694	274,132
Total liabilities and stockholders' equity	$ 331,101	$ 333,314

See accompanying Notes to Condensed Consolidated Financial Statements.

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EXAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended	
	June 27, 2010	June 28, 2009
Sales:		
Net sales	$28,365	$ 23,110
Net sales, related party	11,271	7,752
Total net sales	39,636	30,862
Cost of sales:		
Cost of sales	14,079	12,889
Cost of sales, related party	5,188	3,788
Amortization of purchased intangible assets	1,553	1,340
Total cost of sales	20,820	18,017
Gross profit	18,816	12,845
Operating expenses:		
Research and development	14,443	12,294
Selling, general and administrative	12,957	15,112
Total operating expenses	27,400	27,406
Loss from operations	(8,584)	(14,561)
Other income and expense, net:		
Interest income and other, net	1,613	1,754
Interest expense	(318)	(324)
Impairment charges on investments	—	(72)
Total other income and expense, net	1,295	1,358
Loss before income taxes	(7,289)	(13,203)
Provision for (benefit from) income taxes	125	(328)
Net loss	$ (7,414)	$(12,875)
Loss per share:		
Basic and diluted loss per share	$ (0.17)	$ (0.30)
Shares used in the computation of loss per share:		
Basic and diluted	43,897	43,314

See accompanying Notes to Condensed Consolidated Financial Statements.

EXAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended	
	June 27, 2010	June 28, 2009
Cash flows from operating activities:		
Net loss	$ (7,414)	$(12,875)
Reconciliation of net loss to net cash used in operating activities:		
Depreciation and amortization	5,573	5,553
Deferred income taxes	—	(29)
Stock-based compensation expense	3,322	1,309
Provision for sales returns and allowances	3,111	2,212
Other than temporary loss on investments	—	72
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable and accounts receivable, related party	(3,523)	(4,212)
Inventories	(3,814)	5,055
Other current assets	163	897
Accounts payable	1,351	(879)
Accrued compensation and related benefits	(247)	(1,478)
Deferred income and allowance on sales to distributors and related parties	871	102
Other accrued expenses	(362)	(182)
Net cash used in operating activities	(969)	(4,455)
Cash flows from investing activities:		
Purchases of property, plant and equipment and intellectual property, net	(1,676)	(1,447)
Purchases of short-term marketable securities	(41,226)	(86,775)
Proceeds from maturities of short-term marketable securities	15,864	65,500
Proceeds from sales of short-term marketable securities	12,201	23,824
Other investment activities	(103)	(15)
Acquisition of Galazar, net of cash acquired	—	(3,125)
Acquisition of Hifn, net of cash acquired	—	(40,349)
Net cash used in investing activities	(14,940)	(42,387)
Cash flows from financing activities:		
Proceeds from issuance of common stock	233	153
Repayment of lease financing obligations	(747)	(398)
Net cash used in financing activities	(514)	(245)
Net decrease in cash and cash equivalents	(16,423)	(47,087)
Cash and cash equivalents at the beginning of period	25,486	89,002
Cash and cash equivalents at the end of period	$ 9,063	$ 41,915
Supplemental disclosure of non-cash investing and financial activities:		
Property, plant and equipment acquired under capital lease	$ 1,208	$ —
Issuance of common stock in connection with Hifn acquisition	—	2,705

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, sub-contracts manufacturing and sells highly differentiated silicon, software and subsystem solutions for industrial, telecom, networking and storage applications.

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year's presentation. Such reclassification had no effect on previously reported results of operations or stockholders' equity.

Our fiscal years consist of 52 or 53 weeks. In a 52-week year, each fiscal quarter consists of 13 weeks. The additional week in a 53-week year is added to the fourth quarter, making such quarter consist of 14 weeks. The first quarter of fiscal 2011 and fiscal 2010 included 91 days from March 29, 2010 to June 27, 2010 and March 30, 2009 to June 28, 2009, respectively.

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 28, 2010 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, which we believe are necessary for a fair statement of Exar's financial position as of June 27, 2010 and our results of operations for the three months ended June 27, 2010 and June 28, 2009, respectively. These condensed consolidated financial statements are not necessarily indicative of the results to be expected for the entire year.

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

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

In September 2009, the Financial Accounting Standards Board ("FASB")'s Emerging Issues Task Force ("EITF") issued authoritative guidance addressing revenue arrangements with multiple deliverables. The guidance requires revenue to be allocated to multiple elements using relative fair value based on vendor-specific-objective-evidence, third party evidence or estimated selling price. The residual method also becomes obsolete under this guidance. This guidance is effective for our interim reporting period ending on June 26, 2011. Early adoption is permitted. As of March 29, 2010, the first day of our fiscal year 2011, we adopted the new guidance addressing revenue arrangements with multiple deliverables and the adoption had no material impact on our condensed consolidated financial statements.

In September 2009, FASB's EITF issued authoritative guidance addressing certain revenue arrangements that include software elements. This guidance states that tangible products with hardware and software components that work together to deliver the product functionality are considered non-software products, and the accounting guidance under the revenue arrangements with multiple deliverables is to be followed. This guidance is effective for our interim reporting period ending on June 26, 2011. Early adoption is permitted. As of March 29, 2010, the first day of our fiscal year 2011, we adopted the new guidance addressing certain revenue arrangements that include software elements and the adoption had no material impact on our condensed consolidated financial statements.

In April 2010, the FASB's EITF issued new authoritative guidance addressing the milestone method of revenue recognition. The guidance provides the criteria that should be met for determining whether the milestone method of revenue recognition is appropriate. A vendor can recognize consideration that is contingent upon achievement of a milestone in its entirety as revenue in the period in which the milestone is achieved only if the milestone meets all criteria to be considered substantive. The following criteria must be met for a milestone to be considered substantive: (1) be commensurate with either the level of effort required to achieve the milestone or the enhancement of the value of the item delivered as a result of a specific outcome resulting from the vendor's performance to achieve the milestone; (2) related solely to past performance; and (3) be reasonable relative to all deliverables and payment terms in the arrangement. No bifurcation of an individual milestone is allowed and there can be more than one milestone in an arrangement. Accordingly, an arrangement may contain both substantive and non-substantive milestones. This guidance is effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. As of June 28, 2010, the first day of our second quarter of fiscal 2011, we adopted the new guidance addressing certain milestone method of revenue recognition and the adoption had no material impact on our condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

In January 2010, the FASB's EITF issued new authoritative guidance addressing certain measurements and disclosures about purchases, sales, issuances, and settlements in Level 3 fair value measurements. We are currently evaluating the impact of implementing the disclosures about purchases, sales, issuances, and settlements in Level 3 fair value measurements on our financial position and result of operations, which are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years.

NOTE 3. BUSINESS COMBINATIONS

We periodically evaluate strategic acquisitions that build upon our existing library of intellectual property, human capital and engineering talent, and seek to increase our leadership position in the areas in which we operate.

We account for each business combination by applying the acquisition method, which requires (i) identifying the acquiree; (ii) determining the acquisition date; (iii) recognizing and measuring the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest of Exar in the acquiree at their acquisition date fair value; and (iv) recognizing and measuring goodwill or a gain from a bargain purchase.

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

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

Goodwill is measured and recorded as the amount by which the consideration transferred, generally at the acquisition date fair value, exceeds the acquisition date fair value of identifiable assets acquired, the liabilities assumed, and any noncontrolling interest of Exar in the acquiree. To the contrary, if the acquisition date fair value of identifiable assets acquired, the liabilities assumed, and any noncontrolling interest of Exar in the acquiree exceeds the consideration transferred, it is considered a bargain purchase and we would recognize the resulting gain in earnings on the acquisition date.

In-process research and development ("IPR&D") assets are considered an indefinite-lived intangible asset and are not subject to amortization. IPR&D assets must be tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of the IPR&D asset with its carrying amount. If the carrying amount of the IPR&D asset exceeds its fair value, an impairment loss must be recognized in an amount equal to that excess. After an impairment loss is recognized, the adjusted carrying amount of the IPR&D assets will be its new accounting basis. Subsequent reversal of a previously recognized impairment loss is prohibited. The initial determination and subsequent evaluation for impairment of the IPR&D asset requires management to make significant judgments and estimates. Once the IPR&D projects have been completed, the useful life of the IPR&D asset is determined and amortized accordingly. If the IPR&D asset is abandoned, the remaining carrying value is written off.

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 generally accepted accounting principles ("GAAP").

Acquisition of Neterion

On March 16, 2010, we completed the acquisition of Neterion, Inc. ("Neterion"). Neterion, a privately held company based in Sunnyvale, California, was a supplier of 10 Gigabit Ethernet controller silicon and card solutions optimized for virtualized data centers. Neterion's results of operations and estimated fair value of assets acquired and liabilities assumed were included in our consolidated financial statements beginning March 17, 2010.

Consideration

We paid approximately $2.3 million in cash for Neterion, representing the fair value of total consideration transferred.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Acquisition-Related Costs

Acquisition-related costs, or deal costs, relating to Neterion which are included in the "Selling, general and administrative" line item on the condensed consolidated statement of operations for the three months ended June 27, 2010, were $48,000.

Restructuring Costs

For disclosure regarding restructuring costs, see Note 8. Restructuring contained herein.

Purchase Price Allocation

The allocation of the purchase price to Neterion's tangible and identifiable intangible assets acquired and liabilities assumed was based on their estimated fair values at the date of acquisition. We will recognize additional assets or liabilities if new information is obtained about facts and 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. The measurement period shall not exceed one year from the acquisition date. Further, any associated restructuring activities will be expensed in future periods. We have up to twelve months from the closing date of the acquisition to adjust pre-acquisition contingencies, if any. There were no severance costs relating to Neterion incurred during the three months ended June 27, 2010.

The excess of the purchase price over the tangible and identifiable intangible assets acquired and liabilities assumed has been allocated to goodwill. The $464,000 in goodwill resulted primarily from our expected synergies from the integration of Neterion's technology into our product offerings. Goodwill is not deductible for tax purposes.

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

	As of March 16, 2010
Identifiable tangible assets	
Cash and cash equivalents	$ 747
Accounts receivable	313
Inventories	617
Other current assets	311
Other assets	651
Accounts payable and accruals	(592)
Other liabilities	(2,920)
Debt	(6,963)
Total identifiable tangible assets, net	(7,836)
Identifiable intangible assets	9,700
Total identifiable assets, net	1,864
Goodwill	464
Fair value of total consideration transferred	$ 2,328

During fiscal year 2010 and the three months ended June 27, 2010, there were no adjustments to the fair value allocated to each of the major classes of tangible and identifiable intangible assets acquired and liabilities assumed on March 16, 2010 in the Neterion acquisition.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Identifiable Intangible Assets

The following table sets forth the components of the identifiable intangible assets acquired in the Neterion acquisition, which are being amortized over their estimated useful lives, with a maximum amortization period of six years, on a straight-line basis with no residual value:

	Fair Value (in thousands)	Useful Life (in years)
Existing technologies	$ 5,600	4.0
Patents/Core technology	900	6.0
In-process research and development	800	—
Customer relationships	2,100	6.0
Tradenames/Trademarks	100	2.0
Non-Compete Agreements	100	1.3
Order backlog	100	0.2
Total acquired identifiable intangible assets	$ 9,700	

We allocated the purchase price using the established valuation techniques described below.

Inventories—The value allocated to inventories reflects the estimated fair value of the acquired inventory based on the expected sales price of the inventory, less reasonable selling margin. The estimated fair value of raw materials is generally equal to their book value, due to the fact that raw materials have not been used to develop any finished goods or work-in-progress and therefore, there is no value added to the raw materials.

Intangible assets—The fair values of existing technology, patents/core technology, in-process research and development, customer relationships, tradenames/trademarks, non-compete agreements and order backlog were determined using the income approach, which discounted expected future cash flows to present value, taking into account multiple factors including, but not limited to, the stage of completion, estimated costs to complete, utilization of patents and core technology, the risks related to successful completion, and the markets served. The cash flows were discounted at rates ranging from 4% to 33%. The discount rate used to value the existing intangible assets was 20%.

Acquired In-Process Research and Development—The IPR&D project underway at Neterion at the acquisition date relates to the X3500 product series and as of such acquisition date had incurred approximately $2.9 million in expense. The total research and development expense expected to be incurred to complete the project is estimated at $17.5 million, based on the project development timeline and resource requirements, and is scheduled for completion by December 2011. The percentage of completion for the project was estimated at 25% at the acquisition date.

Acquisition of Galazar

On June 17, 2009, we completed the acquisition of Galazar Networks, Inc. ("Galazar"). Galazar, based in Ottawa, Ontario, Canada, was a fabless semiconductor company focused on carrier grade transport over telecom networks. Galazar's product portfolio addresses transport of a wide range of datacom and telecom services including Ethernet, SAN, TDM and video over SONET/SDH, PDH and OTN networks. Galazar's results of operations and estimated fair value of assets acquired and liabilities assumed were included in our consolidated financial statements beginning June 18, 2009.

Consideration

We expected to pay approximately $4.95 million in cash for Galazar, representing the fair value of total consideration transferred. This amount included approximately $1.0 million contingent consideration that, for the purposes of valuation, was assigned a 95% probability or a fair value of $0.95 million. This payment was contingent on Galazar achieving a project milestone within a twelve-month period following the close of the transaction. This milestone was met during the three months ended December 27, 2009 and $1.0 million was paid in cash. The additional $50,000 was expensed and included in the "Research and development" line item on the consolidated statement of operations for the fiscal year ended March 28, 2010.

Acquisition-Related Costs

Acquisition-related costs, or deal costs, relating to Galazar which are included in the "Selling, general and administrative" line item on the consolidated statement of operations for the three months ended June 28, 2009, were $574,000.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Purchase Price Allocation

The allocation of the purchase price to Galazar's tangible and identifiable intangible assets acquired and liabilities assumed was based on their estimated fair values at the date of acquisition. We will recognize additional assets or liabilities if new information is obtained about facts and 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. The measurement period shall not exceed one year from the acquisition date. Further, any associated restructuring activities will be expensed in future periods. Subsequent to the acquisition, we recorded severance costs relating to Galazar of $134,000 for the three months ended June 28, 2009. No severance costs relating to Galazar were incurred during the three months ended June 27, 2010.

The excess of the purchase price over the tangible and identifiable intangible assets acquired and liabilities assumed has been allocated to goodwill. The $372,000 in goodwill resulted primarily from our expected synergies from the integration of Galazar's technology into our product offerings. Goodwill is not deductible for tax purposes.

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

	As of June 17, 2009
Identifiable tangible assets	
Cash and cash equivalents	$ 506
Other current assets	909
Other assets	250
Accounts payable and accruals	(93)
Accrued compensation and related benefits	(230)
Other obligations	(224)
Total identifiable tangible assets, net	1,118
Identifiable intangible assets	3,460
Total identifiable assets, net	4,578
Goodwill	372
Fair value of total consideration transferred	$4,950

During fiscal year 2010 and the three months ended June 27, 2010, there were no adjustments to the fair value allocated to each of the major classes of tangible and identifiable intangible assets acquired and liabilities assumed on June 17, 2009 in the Galazar acquisition.

Identifiable Intangible Assets

The following table sets forth the components of the identifiable intangible assets acquired in the Galazar acquisition, which are being amortized over their estimated useful lives, with a maximum amortization period of six years, on a straight-line basis with no residual value:

	Fair Value (in thousands)	Useful Life (in years)
Existing technologies	$ 2,100	6.0
Patents/Core technology	400	6.0
In-process research and development	300	—
Customer relationships	500	6.0
Order backlog	60	0.3
Tradenames/Trademarks	100	3.0
Total acquired identifiable intangible assets	$ 3,460	

We allocated the purchase price using the established valuation techniques described below.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Intangible assets—The fair value of existing technology, patents/core technology, in-process research and development, customer relationships, order backlog and tradenames/trademarks were determined using the income approach, which discounted expected future cash flows to present value, taking into account multiple factors including, but not limited to, the stage of completion, estimated costs to complete, utilization of patents and core technology, the risks related to successful completion, and the markets served. The cash flows were discounted at rates ranging from 5% to 35%. The discount rate used to value the existing intangible assets was 28%.

Acquired In-Process Research and Development—The IPR&D project underway at Galazar at the acquisition date relates to the MXP2 product and as of such acquisition date had incurred approximately $2.3 million in expense. The total research and development expense expected to be incurred to complete the project is estimated at $7.4 million, based on the project development timeline and resource requirements, and is scheduled for completion by July 2011. The percentage of completion for the project was estimated at 51% at the acquisition date.

Acquisition of Hifn

On April 3, 2009, we completed the acquisition of all of the outstanding shares of hi/fn, inc. ("Hifn"). Hifn was a provider of network- and storage-security and data reduction products that simplify the way major network and storage OEMs, as well as small and medium enterprises ("SMEs"), efficiently and securely share, retain, access and protect critical data. Hifn's results of operations and estimated fair value of assets acquired and liabilities assumed were included in our consolidated financial statements beginning April 4, 2009.

Consideration

The following table summarizes the consideration paid for Hifn, representing the fair value of total consideration transferred (in thousands):

	Amounts
Cash	$56,825
Equity instruments	2,784
Total consideration paid	$59,609

The $2.8 million estimated fair value for equity instruments represented approximately 429,600 shares of Exar's common stock, valued at $6.48 per share, the closing price reported on The NASDAQ Global Market on April 3, 2009 (the acquisition date).

Acquisition-Related Costs

Acquisition-related costs, or deal costs, relating to Hifn which are included in the "Selling, general and administrative" line item on the consolidated statement of operations for the three months ended June 28, 2009 were $1.5 million.

Purchase Price Allocation

The allocation of the purchase price to Hifn's tangible and identifiable intangible assets acquired and liabilities assumed was based on their estimated fair values at the date of acquisition. We will recognize additional assets or liabilities if new information is obtained about facts and 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. The measurement period shall not exceed one year from the acquisition date. Further, any associated restructuring activities will be expensed in future periods. Subsequent to the acquisition, we recorded $0.3 million in restructuring expenses relating to Hifn for the three months ended June 28, 2009, relating to severance and a building lease obligation in Los Gatos, California. There were $34,000 of severance costs relating to Hifn incurred during the three months ended June 27, 2010.

The excess of the purchase price over the tangible and identifiable intangible assets acquired and liabilities assumed has been allocated to goodwill. The $2.2 million in goodwill resulted primarily from our expected future product sales synergies from combining Hifn's products with our product offerings. Goodwill is not deductible for tax purposes.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

The fair value allocated to each of the major classes of tangible and identifiable intangible assets acquired and liabilities assumed on April 3, 2009 in the Hifn acquisition was as follows (in thousands):

	As of April 3, 2009
Identifiable tangible assets	
Cash and cash equivalents	$16,468
Short-term marketable securities	14,133
Accounts receivable	2,982
Inventories	4,269
Other current assets	1,683
Property, plant and equipment	2,013
Other assets	1,721
Accounts payable and accruals	(586)
Accrued compensation and related benefits	(1,860)
Other current liabilities	(2,963)
Total identifiable tangible assets, net	37,860
Identifiable intangible assets	19,500
Total identifiable assets, net	57,360
Goodwill	2,249
Fair value of total consideration transferred	$59,609

During fiscal year 2010 and the three months ended June 27, 2010, there were no adjustments to the fair value allocated to each of the major classes of tangible and identifiable intangible assets acquired and liabilities assumed on April 3, 2009 in the Hifn acquisition.

Identifiable Intangible Assets

The following table sets forth the components of the identifiable intangible assets acquired in the Hifn acquisition, which are being amortized over their estimated useful lives, with a maximum amortization period of seven years, on a straight-line basis with no residual value:

	Fair Value (in thousands)	Useful Life (in years)
Existing technologies	$ 9,000	5.0
Patents/Core technology	1,500	5.0
In-process research and development	1,600	—
Research and development reimbursement contract	4,500	1.5
Customer relationships	1,300	7.0
Order backlog	900	0.5
Tradenames/Trademarks	700	3.0
Total acquired identifiable intangible assets	$ 19,500	

We allocated the purchase price using the established valuation techniques as described below.

Inventories—Inventories acquired in connection with the Hifn acquisition were finished goods. The value allocated to inventories reflects the estimated fair value of the acquired inventory based on the expected sales price of the inventory, less reasonable selling margin.

Property, plant and equipment—The basis used for our analysis is the fair value in continued use, which is expressed in terms of the price a willing and informed buyer would pay contemplating continued use as part of the assets in place for the purpose for which they were designed, engineered, installed, fabricated and erected.

Intangible assets—The fair value of existing technology, patents/core technology, in-process research and development, research and development reimbursement contract, customer relationships, order backlog and tradenames/trademarks were determined using the income approach, which discounted expected future cash flows to present value, taking into account multiple factors including, but not limited to, the stage of completion, estimated costs to complete, utilization of patents and core technology, the risks related to successful completion, and the markets served. The cash flows were discounted at rates ranging from 5% to 30%. The discount rate used to value the existing intangible assets was 14%.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Acquired In-Process Research and Development—The IPR&D projects underway at Hifn at the acquisition date were in the security processors and flow through product families, each consisting of one project, and as of such acquisition date had incurred approximately $2.6 million and $1.1 million in costs, respectively. The percentage of completion for these projects, at the date of acquisition, was 90% and 30%, respectively. The total research and development expenditures expected to be incurred to complete the security processors and flow through projects are approximately $2.1 million and $0.7 million, respectively, based on project development timelines and resource requirements. The IPR&D project for flow through was completed in January 2010 and is in production. The IPR&D project for security processors was completed during July 2010.

NOTE 4. CASH, CASH EQUIVALENTS AND SHORT-TERM MARKETABLE SECURITIES

Fair Value of Financial Instruments

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 which are the following:

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 investment assets, measured at fair value on a recurring basis, as of June 27, 2010 are as follows (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	$ 5,629	$ —	$ —	$ 5,629
U.S. Treasury securities	17,131	—	—	17,131
Asset-backed securities	—	18,221	—	18,221
Agency mortgage-backed securities	—	41,063	—	41,063
Agency pool mortgage-backed securities	—	3,591	—	3,591
Corporate bonds and notes	—	82,554	—	82,554
Government and agency bonds	—	36,538	—	36,538
Total investment assets	$22,760	$181,967	$ —	$204,727

Our investment assets, measured at fair value on a recurring basis, as of March 28, 2010 were as follows (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	$19,616	$ —	$ —	$ 19,616
U.S. Treasury securities	15,839	—	—	15,839
Asset-backed securities	—	17,801	—	17,801
Agency mortgage-backed securities	—	42,514	—	42,514
Agency pool mortgage-backed securities	—	4,413	—	4,413
Corporate bonds and notes	—	62,122	—	62,122
Government and agency bonds	—	43,909	—	43,909
Total investment assets	$35,455	$170,759	$ —	$206,214

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Our cash, cash equivalents and short-term marketable securities as of June 27, 2010 and March 28, 2010 are as follows (in thousands):

	June 27, 2010	March 28, 2010
Cash and cash equivalents		
Cash in financial institutions	$ 3,434	$ 5,870
Cash equivalents		
Money market funds	5,629	19,616
Total cash equivalents	5,629	19,616
Total cash and cash equivalents	$ 9,063	$ 25,486
Available-for-sale securities		
U.S. government and agency securities	$ 53,668	$ 59,747
Corporate bonds and commercial paper	82,555	62,122
Asset-backed securities	18,221	17,801
Mortgage-backed securities	44,654	46,928
Total short-term marketable securities	$199,098	$186,598

Our marketable securities include municipal securities, commercial paper, asset and mortgage-backed securities, corporate bonds and U.S. government securities. We classify investments as available-for-sale at the time of purchase and re-evaluate such designation as of each balance sheet date. We amortize premiums and accrete discounts to interest income over the life of the investment. Our available-for-sale securities 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 which we intend to sell as necessary to meet our liquidity requirements.

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 accumulated other comprehensive income within stockholders' equity 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 operation.

Realized gains or 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 operation. Net realized loss on marketable securities for the three months ended June 27, 2010 was $22,000 and net realized gain on marketable securities for the three months ended June 28, 2009 was $143,000.

The following table summarizes our investments in marketable securities as of June 27, 2010 and March 28, 2010 (in thousands):

	June 27, 2010			
	Amortized Cost	Unrealized Gross Gains	Unrealized Gross Losses	Fair Value
Money market funds	$ 5,629	$ —	$ —	$ 5,629
U.S. government and agency securities	52,915	753	—	53,668
Corporate bonds and commercial paper	81,995	838	(278)	82,555
Asset and mortgage-backed securities	62,600	430	(155)	62,875
Total investments	$203,139	$ 2,021	$ (433)	$204,727

	March 28, 2010			
	Amortized Cost	Unrealized Gross Gains	Unrealized Gross Losses	Fair Value
Money market funds	$ 19,616	$ —	$ —	$ 19,616
U.S. government and agency securities	58,943	835	(31)	59,747
Corporate bonds and commercial paper	61,240	900	(18)	62,122
Asset and mortgage-backed securities	64,329	496	(96)	64,729
Total investments	$204,128	$ 2,231	$ (145)	$206,214

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

As of June 27, 2010, asset-backed and mortgage-backed securities, accounted for 9% and 22%, respectively, of our total investments in marketable securities of $204.7 million. The asset-backed securities are comprised primarily of premium tranches of auto loans and credit card receivables, while our mortgage-backed securities are primarily from Federal agencies. We do not own auction rate securities nor do we own securities that are classified as sub-prime. As of the date of this Form 10-Q, we have sufficient liquidity and do not intend to sell these securities to fund normal operations nor realize any significant losses in the short term. As of June 27, 2010, the net unrealized gain of our asset-backed and mortgage-backed securities totaled $275,000.

As of June 27, 2010, for all of our marketable securities, including asset-backed and mortgage-back securities, there were approximately $0.8 million of net unrealized gains including tax expense from our level 1 and level 2 investments.

We periodically review our investments in unrealized loss positions for other-than-temporary impairments. This evaluation includes, but is not limited to, significant quantitative and qualitative assessments and estimates regarding credit ratings, collateralized support, the length of time and significance of a security's loss position, our intent to not 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. Other-than-temporary declines in value of our investments are reported in the "Impairment charges on investments" line item in the condensed consolidated statements of operations. In the three months ended June 28, 2009, an asset-backed security investment in GSAA Home Equity with a cost of $425,000 was downgraded from an AAA rating to a CCC rating. As a result of the reduction in the rating and quantitative analysis showing an increase in the default rate and a decrease in the prepayment rate of the investment, we recorded an other-than-temporary impairment charge of $91,000 during the three months ended June 28, 2009.

The amortized cost and estimated fair value of cash equivalents and marketable securities classified as available-for-sale at June 27, 2010 and March 28, 2010 by expected maturity were as follows (in thousands):

	June 27, 2010		March 28, 2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Less than 1 year	$ 87,805	$ 88,347	$108,813	$109,562
Due in 1 to 5 years	115,334	116,380	95,316	96,652
Total	$203,139	$204,727	$204,129	$206,214

The following table summarizes the gross unrealized losses and fair values of our investments in an unrealized loss position as of June 27, 2010 and March 28, 2010, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position (in thousands):

	June 27, 2010					
	Less than 12 months		12 months or greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate bonds and commercial paper	$ 21,436	$ (302)	$ 812	$ (22)	$ 22,248	$ (324)
Asset and mortgage-backed securities	18,599	(109)	—	—	18,599	(109)
Total	$ 40,035	$ (411)	$ 812	$ (22)	$ 40,847	$ (433)

	March 28, 2010					
	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	$ 5,399	$ (27)	$ —	$ —	$ 5,399	$ (27)
Corporate bonds and commercial paper	12,981	(27)	353	(31)	13,334	(58)
Asset and mortgage-backed securities	19,672	(60)	—	—	19,672	(60)
Total	$ 38,052	$ (114)	$ 353	$ (31)	$ 38,405	$ (145)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

NOTE 5. GOODWILL AND INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination. We evaluate goodwill for impairment on an annual basis or whenever events and changes in circumstances suggest that the carrying amount may not be recoverable. We conduct our annual impairment analysis in the fourth quarter of each fiscal year. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired and a second step is performed to measure the amount of impairment loss. Because we have one reporting unit, we utilize an entity-wide approach to assess goodwill for impairment.

During the three months ended June 27, 2010, 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 three months ended June 27, 2010 are as follows (in thousands):

	Amount
Balance as of March 28, 2010	$3,085
Goodwill additions, impairments and adjustments	99
Balance as of June 27, 2010	$3,184

Intangible Assets

Our purchased intangible assets at June 27, 2010 and March 28, 2010 are as follows (in thousands):

	June 27, 2010			March 28, 2010		
	Carrying Amount	Accumulated Amortization	Net Carrying Amount	Carrying Amount	Accumulated Amortization	Net Carrying Amount
Existing technology	$35,871	$ (17,312)	$ 18,559	$35,621	$ (15,734)	$19,887
Patents/Core technology	4,492	(1,854)	2,638	4,492	(1,688)	2,804
In-process research and development	2,200	—	2,200	2,200	—	2,200
Research and development reimbursement contract	4,500	(3,498)	1,002	4,500	(2,496)	2,004
Customer backlog	1,400	(1,400)	—	1,400	(1,325)	75
Distributor relationships	1,264	(944)	320	1,264	(919)	345
Customer relationships	4,670	(946)	3,724	4,670	(777)	3,893
Non-compete agreement	100	(23)	77	100	(3)	97
Tradenames/Trademarks	1,077	(509)	568	1,077	(425)	652
Total	$55,574	$ (26,486)	$ 29,088	$55,324	$ (23,367)	$31,957

Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We compare the carrying value of long-lived assets to our projection of future undiscounted cash flows attributable to such assets and, in the event that the carrying value exceeds the future undiscounted cash flows, we record an impairment charge equal to the excess of the carrying value over the asset's fair value.

As of June 27, 2010 there were no indicators that required us to perform an intangible assets impairment review and therefore we did not record an impairment charge during the three months ended June 27, 2010.

The aggregate amortization expenses for our purchased intangible assets for periods presented below are as follows:

	Weighted Average Lives	Three Months Ended June 27, 2010	Three Months Ended June 29, 2009
	(in months)	(in thousands)	
Existing technology	65	$ 1,578	$ 1,072
Patents/Core technology	61	166	106
In-process research and development	62	—	—
Research and development reimbursement contracts	24	1,002	516
Customer backlog	6	75	416
Distributor relationships	72	25	25
Customer relationships	80	169	58
Non-compete agreement	15	20	—
Tradenames/Trademarks	35	84	59
Total		$ 3,119	$ 2,252

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

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

Amortization Expense (by fiscal year)	
2011 (9 months remaining)	$ 7,135
2012	6,935
2013	6,313
2014	5,667
2015	1,867
2016 and thereafter	1,171
Total estimated amortization	$29,088

NOTE 6. LONG-TERM INVESTMENTS

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

As of June 27, 2010 and March 28, 2010, our long-term investments balance, which is included in the "Other non-current assets" line item on the condensed consolidated balance sheet were as follows (in thousands):

Long-term investments	June 27, 2010	March 28, 2010
Skypoint Fund	$1,445	$ 1,440

We have made approximately $4.5 million in capital contributions to Skypoint Fund since we became a limited partner in July 2001. Our total capital commitment is $5.0 million. We contributed $5,000 to the fund during the three months ended June 27, 2010. As of June 27, 2010, we have a remaining obligation of approximately $0.5 million should the general partner decide to request it.

The carrying amount of $1.4 million reflects the net of capital contributions, cumulative impairment charges and capital distributions. We received a capital distribution of $36,000 during fiscal year 2010. We did not receive any distributions during the three months ended June 27, 2010.

Impairment

In three months ended June 27, 2010, we analyzed the fair value of the underlying investments of Skypoint Fund and concluded that there was no other-than-temporary impairment and therefore we did not record an impairment charge for Skypoint Fund in the three months ended June 27, 2010.

NOTE 7. RELATED PARTY TRANSACTION

Affiliates of Future Electronics Inc. ("Future"), Alonim Investments Inc. and two of its affiliates (collectively "Alonim"), own approximately 7.6 million shares, or approximately 17%, of our outstanding common stock as of June 27, 2010. As such, Alonim is our largest stockholder.

Our sales to Future are made under an agreement that provides protection against price reduction for its inventory of our products and other sales allowances. We recognize revenue on sales to Future under a distribution agreement when Future sells the products to its end customers. Future has historically accounted for a significant portion of our net sales. It is our largest distributor worldwide and accounted for 28% and 25% of our total net sales for the three months ended June 27, 2010 and June 28, 2009, respectively.

We reimbursed Future for approximately $6,000 and $11,000 of expenses for marketing promotional materials for the three months ended June 27, 2010 and June 28, 2009, respectively.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

NOTE 8. RESTRUCTURING

In connection with the Neterion acquisition in March 2010, we assumed a lease obligation for a facility in Sunnyvale, California. During the three months ended June 27, 2010, this facility was vacated and a restructuring reserve of approximately $234,000 was recorded to reflect the remaining payments owed under this lease. The majority of this balance is expected to be paid by August 2011, when the lease expires.

In connection with the acquisition of Sipex Corporation ("Sipex") in August 2007, our management approved and initiated plans to restructure the operations of the combined company to eliminate certain duplicative activities, reduce costs and better align product and operating expenses with then-current economic conditions. The Sipex restructuring costs were accounted for as liabilities assumed as part of the business combination and are expected to be paid over the remaining term of the Sipex lease, which expires in March 2012.

Our restructuring liabilities were included in the "Other accrued expenses" line item in our condensed consolidated balance sheets, and the activities affecting the liabilities for the three months ended June 27, 2010 are summarized as follows (in thousands):

	Facility Costs
Balance at March 28, 2010	$ 239
Payments	—
Additional accruals	234
Balance June 27, 2010	$ 473

NOTE 9. BALANCE SHEET DETAIL

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

	June 27, 2010	March 28, 2010
Land	$ 11,960	$ 11,960
Building and leasehold improvements	24,208	24,022
Machinery and equipment	46,110	45,932
Software and licenses	37,685	35,651
Property, plant and equipment, total	119,963	117,565
Accumulated depreciation and amortization	(76,556)	(74,624)
Property, plant and equipment, net	$ 43,407	$ 42,941

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

	June 27, 2010	March 28, 2010
Work-in-process	$13,589	$ 9,318
Finished goods	5,225	5,682
Total Inventories	$18,814	$15,000

Our other accrued expenses consisted of the following as of the dates indicated (in thousands):

	June 27, 2010	March 28, 2010
Accrued legal and professional services	$3,736	$ 4,053
Accrued sales and marketing expenses	1,448	676
Accrued manufacturing expenses, royalties and licenses	672	1,308
Accrued restructuring expenses	473	239
Other	426	782
Total other accrued expenses	$6,755	$ 7,058

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

NOTE 10. EARNINGS (LOSS) PER SHARE

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

A summary of our loss per share for the three months ended June 27, 2010 and the three months ended June 28, 2009 is as follows (in thousands, except per share amounts):

	Three Months Ended	
	June 27, 2010	June 28, 2009
Net loss	$ (7,414)	$(12,875)
Shares used in computation:		
Weighted average shares of common stock outstanding used in computation of basic loss per share	43,897	43,314
Dilutive effect of stock options and restricted stock units	—	—
Shares used in computation of diluted loss per share	$43,897	$ 43,314
Loss per share - basic and diluted	$ (0.17)	$ (0.30)

For the three months ended June 27, 2010, as we incurred a net loss, the weighted average number of shares of common stock outstanding equaled the weighted average number of shares of common stock and common stock equivalents assuming dilution. Options to purchase shares of common stock and unvested restricted stock units ("RSUs") for shares of common stock in the aggregate amount of approximately 329,000 shares of common stock for the three months ended June 27, 2010 were excluded from our loss per share calculation under the treasury stock method. Had we had income for these periods, our diluted shares would have increased by the aforementioned amount.

For the three months ended June 27, 2010, options to purchase approximately 6.0 million shares of common stock, at exercise prices ranging from $6.16 to $86.10, were outstanding but were not included in the computation of diluted loss per share because they were anti-dilutive under the treasury stock method. Warrants to purchase approximately 280,000 shares of common stock with an exercise price of $9.63 were also excluded from the computation of diluted loss per share because they were anti-dilutive under the treasury stock method. There were no unvested RSUs at June 27, 2010 that were considered anti-dilutive under the treasury method.

For the three months ended June 28, 2009, as we incurred a net loss, the weighted average number of shares of common stock outstanding equaled the weighted average number of shares of common stock and common stock equivalents assuming dilution. Approximately 243,000 shares of common stock underlying options and unvested RSUs were excluded from our loss per share calculation under the treasury stock method for the three months ended June 28, 2009. Had we had income for the period, our diluted shares would have increased by the aforementioned amounts.

For the three months ended June 28, 2009, options to purchase approximately 3.9 million shares of common stock, at exercise prices ranging from $5.44 to $86.10, were outstanding but were not included in the computation of diluted loss per share because they were anti-dilutive under the treasury stock method. Warrants to purchase approximately 280,000 shares of common stock with an exercise price of $9.63 were also excluded from the computation of diluted loss per share because they were anti-dilutive under the treasury stock method. Unvested RSUs corresponding to approximately 63,000 shares of our common stock with a grant date fair value of $6.45 were outstanding at June 28, 2009 and were not included in the computation of diluted net loss per share because they were anti-dilutive under the treasury stock method.

Our application of the treasury stock method in determining the dilutive effect of stock options and RSUs includes assumed cash proceeds from option exercises, the average unamortized stock-based compensation expense for the period, and the estimated deferred tax benefit or detriment associated with stock-based compensation expense.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

NOTE 11. COMMON STOCK REPURCHASES

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

On August 28, 2007, we established a share repurchase plan ("2007 SRP") and authorized the repurchase of up to $100 million of our common stock.

During the three months ended June 27, 2010 and the three months ended June 28, 2009, we did not repurchase any shares under the 2007 SRP. As of June 27, 2010, the remaining authorized amount for the stock repurchase under the 2007 SRP was $11.8 million. The 2007 SRP does not have a termination date. We may continue to utilize our share repurchase plan, which would reduce our cash, cash equivalents and/or short-term investments available to fund future operations and to meet other liquidity requirements.

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.

We are authorized to issue 4.5 million shares of common stock under our ESPP. There were approximately 1,534,444 shares of common stock reserved for future issuance under our ESPP at June 27, 2010.

In the three months ended June 27, 2010, we issued approximately 14,718 shares of our common stock at a weighted average price of $6.84 to the participating employees under our ESPP.

Equity Incentive Plans

We currently have four equity incentive plans including the Exar Corporation 2006 Equity Incentive Plan (the "2006 Plan") and three other equity plans assumed upon our August 2007 acquisition of Sipex: the Sipex Corporation 2000 Non-Qualified Stock Option Plan, the Sipex Corporation Amended and Restated 2002 Non-Statutory Stock Option Plan and the Sipex Corporation 2006 Equity Incentive Plan (collectively, the "Sipex Plans").

The 2006 Plan authorizes the issuance of stock options, stock appreciation rights, restricted stock, stock bonuses and other forms of awards granted or denominated in common stock or units of common stock, as well as cash bonus awards. RSUs granted under the 2006 Plan are counted against authorized shares available for future issuance on a basis of two shares for every RSU issued. The 2006 Plan allows for performance-based vesting and partial vesting based upon level of performance. Grants under the Sipex Plans are only available to former Sipex employees or employees of Exar hired after the Sipex acquisition. At June 27, 2010, there were approximately 200,000 shares available for future grant under all our equity incentive plans.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Stock Option Activities

Our stock option transactions during the three months ended June 27, 2010 are summarized as follows:

	Outstanding	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (1)
Balance at March 28, 2010	5,345,504	$ 8.01	5.38	$ 1,882,286
Options granted	1,063,300	7.11		
Options exercised	(21,719)	6.14		
Options cancelled	(31,225)	10.52		
Options forfeited	(123,998)	7.29		
Balance at June 27, 2010	6,231,862	$ 7.86	5.37	$ 1,775,673
Vested and expected to vest, June 27, 2010	5,869,073	$ 7.91	5.33	$ 1,665,937
Vested and exercisable, June 27, 2010	1,969,758	$ 9.13	4.28	$ 561,148

(1) 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 $7.23 and $7.32 as of June 27, 2010 and March 28, 2010, respectively. These are the values which would have been received by option holders if all option holders exercised their options on that date.

The total number of in-the-money options vested and exercisable was 0.6 million as of June 27, 2010 and 0.2 million as of March 28, 2010, respectively.

Total unrecognized stock-based compensation cost was $9.4 million at June 27, 2010, which is expected to be recognized over a weighted average period of 2.85 years.

RSU Activities

Our RSU transactions during the three months ended June 27, 2010 are summarized as follows:

	Shares	Weighted Average Grant-Date Fair Value	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value (1)	Unrecognized Stock-based Compensation Cost (2) (in millions)
Unvested at March 28, 2010	834,204	$ 8.20	1.04	$6,106,373	$ 4.2
Granted	272,000	7.11			
Issued and released	(109,577)	7.06			
Cancelled	(12,378)	9.12			
Unvested at June 27, 2010	984,249	$ 8.01	0.83	$7,116,120	$ 3.7
Vested and expected to vest at June 27, 2010	944,464	$ 7.97	0.79	$6,828,475	

(1) 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.
(2) 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, is recognized on a straight-line basis over the vesting period.

In July 2009, we granted performance-based RSUs covering 99,000 shares to certain executives, issuable upon meeting certain performance targets in our fiscal 2010 and vesting annually over a three year period beginning July 1, 2010. The annual vesting requires continued service through each annual vesting date. In the three months ended June 27, 2010, we recognized approximately $60,000 of compensation expense related to these awards.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

In April 2010, we granted performance-based RSUs covering 56,000 shares to our CEO, issuable upon meeting certain performance targets in our fiscal 2011 and vesting annually over a three year period beginning May 3, 2010. The annual vesting requires continued service through each annual vesting date. In the three months ended June 27, 2010, we recognized approximately $60,000 of compensation expense related to these awards.

In the three months ended June 27, 2010, we granted approximately 210,000 of stock based awards to certain employees that resulted in $1.5 million in stock-based compensation expense. These grants were discretionary in nature and fully vested upon issuance.

Stock-Based Compensation Expense

The following table summarizes stock-based compensation expense related to stock options and RSUs for the three months ended June 27, 2010 and the three months ended June 28, 2009 (in thousands):

	Three Months Ended	
	June 27, 2010	June 28, 2009
Cost of sales	$ 220	$ 116
Research and development	1,556	486
Selling, general and administrative	1,546	707
Total Stock-based compensation expense	$ 3,322	$ 1,309

Stock-based compensation expense for the three months ended June 27, 2010 and the three months ended June 28, 2009 includes approximately $133,000 and $148,000, respectively, of incremental stock-based compensation expense associated with RSU awards covering an aggregate of 344,020 shares of our common stock issued in exchange for the options surrendered pursuant to the October 23, 2008 option exchange program.

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 judgments which include the expected term of the share-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	
	June 27, 2010	June 28, 2009
Expected term of options (years)	4.2 – 4.5	4.7 – 4.9
Risk-free interest rate	1.9 – 2.1%	2.1 – 2.2%
Expected volatility	39%	38%
Expected dividend yield	—	—
Weighted average estimated fair value	$ 2.47	$ 2.31

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

NOTE 13. COMPREHENSIVE INCOME (LOSS)

Our comprehensive loss for the periods indicated below was as follows (in thousands):

	Three Months Ended	
	June 27, 2010	June 28, 2009
Net loss	$(7,414)	$(12,875)
Other comprehensive loss:		
Change in unrealized income (loss), on marketable securities, net of tax	(498)	413
Total other comprehensive income (loss)	$ (498)	$ 413
Comprehensive loss	(7,912)	(12,462)

NOTE 14. LEASE FINANCING OBLIGATION

In connection with the Sipex acquisition, we assumed a lease financing obligation related to a facility located in Milpitas, California (the "Hillview Facility"). The lease term expires in March 2011 with average lease payments of approximately $1.4 million per year.

The fair value of the Hillview Facility was estimated at $13.4 million at the time of the acquisition and was included in the "Property, plant and equipment, net" line item on the condensed consolidated balance sheet. In accordance with purchase accounting, we have accounted for this sale and leaseback transaction as a financing transaction which was included in the "Long-term lease financing obligations" line item on our condensed consolidated balance sheet. The effective interest rate is 8.2%. Depreciation for the Hillview Facility was recorded over the straight-line method for the remaining useful life and was $88,000 for the three months ended on June 27, 2010. At the end of the lease term, the estimated final lease obligation is approximately $12.2 million, which we will settle by returning the Hillview Facility to the lessor.

We began to sublet the Hillview Facility in April 2008. The sublease expires in March 2011 and we expect annual sublease income of approximately $1.5 million for the duration of the sublease term. The sublease income for the three months ended June 27, 2010 and the three months ended June 28, 2009 was $364,000 and $353,000, respectively, and was recorded in the "Interest income and other, net" line item in our condensed consolidated statements of operations.

We have also acquired engineering design tools ("design tools") under capital leases. We acquired $5.2 million of design tools in December 2007 under a four-year license, $3.7 million of design tools in November 2008 under a three-year license, and $1.3 million of design tools in February and June 2010 under a two-year and a three-year license, respectively, which were accounted for as capital leases and recorded in the "Property, plant and equipment, net" line item on the condensed consolidated balance sheets. The related design tool obligations were included in the lease financing obligation in our condensed consolidated balance sheets. Amortization of the design tools is recorded using the straight-line method over the remaining useful life and was $843,000 and $536,000 in the three months ended June 27, 2010 and the three months ended June 28, 2009, respectively.

Future minimum lease payments for the lease financing obligations as of June 27, 2010 are as follows (in thousands):

Fiscal Years	Hillview Facility	Design Tools	Total	Expected Sublease Income
2011 (9 months remaining)	$13,260	$ 3,407	$16,667	$ 1,092
2012	—	1,837	1,837	—
2013	—	390	390	—
Total minimum lease payments	13,260	5,634	18,894	1,092
Less: amount representing interest	(762)	(367)	(1,129)	
Less: amount representing maintenance	—	(309)	(309)	
Present value of minimum lease payments	12,498	4,958	17,456	1,092
Less: current portion of lease financing obligation	(436)	(3,573)	(4,009)	—
Long-term lease financing obligation	$12,062	$ 1,385	$13,447	$ 1,092

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

For the three months ended June 27, 2010, interest expense totaled $258,000 and $58,000 for the Hillview Facility lease financing obligation and design tools, respectively. For the three months ended June 28, 2009, interest expense totaled approximately $266,000 and $58,000 for the Hillview Facility lease financing obligation and design tools, respectively.

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. The frequency and number of wells monitored at the site was reduced with prior regulatory approval for a plume stability analysis as an initial step towards site closure. No significant rebound concentrations have been observed. The groundwater treatment system remains shut down. In July 2008, we evaluated the effectiveness of the plume stability and decided to initiate an alternative treatment program to pursue a no further action order for the site. The program was approved by the state and implementation started in October 2009. As such, we accrued an additional $58,000, increasing our liability to $250,000. This accrual included approximately $200,000 for various remediation options under consideration and $50,000 for future annual monitoring. As of June 27, 2010 the remaining liability was $130,000, net of payments of $7,000 and $113,000, during the three months ended June 27, 2010 and the fiscal year 2010, respectively.

Sipex, which we acquired in August 2007, entered into a definitive Master Agreement with Hangzhou Silan Microelectronics Co. Ltd. and Hangzhou Silan Integrated Circuit Co. Ltd. (collectively "Silan") in China. Silan is a China-based semiconductor foundry. This transaction was related to the closing of Sipex wafer fabrication operations located in Milpitas, California. Under this agreement, Sipex and Silan would work together to enable Silan to manufacture semiconductor wafers using Sipex process technology. The Master Agreement includes a Process Technology Transfer and License Agreement which contemplates the transfer of eight of our processes and related product manufacturing to Silan. Subject to our option to suspend in whole or in part, there is a purchase commitment under the Wafer Supply Agreement obligating us to purchase from Silan an average of at least one thousand equivalent wafers per week, calculated on a quarterly basis, for five years beginning February 2006. There were open purchase orders for approximately $3.5 million outstanding as of June 27, 2010.

Generally, we warrant all of our products against defects in materials and workmanship for a period of 12 months and occasionally we may provide an extended warranty of up to three years from the delivery date. Reserve requirements are recorded in the period of sale and are based on an assessment of the products sold with warranty and historical warranty costs incurred. Our liability is generally limited to replacing, repairing or issuing credit, at our option, for the product if it has been paid for. The warranty does not cover damage which results from accident, misuse, abuse, improper line voltage, fire, flood, lightning or other damage resulting from modifications, repairs or alterations performed other than by us, or resulting from failure to comply with our written operating and maintenance instructions. Warranty expense has historically been immaterial for our products. The warranty liabilities related to our products as of June 27, 2010 was immaterial.

In the ordinary course of business, we may provide indemnification of varying scope and terms to customers, vendors, lessors and 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, with respect to the sale of assets or a subsidiary, matters related to our conduct of the business and tax matters prior to the sale. 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 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 limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. 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 may be involved in lawsuits and proceedings incidental to the conduct of our business. We are not a named party to any 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

NOTE 17. INCOME TAXES

During the three months ended June 27, 2010 and the three months ended June 28, 2009, we recorded an income tax expense of approximately $0.1 million and tax benefit of $0.3 million, respectively. The income tax expense was primarily due to taxes owed in foreign jurisdictions.

The unrecognized tax benefits increased by $0.1 million to $16.0 million during the three months ended June 27, 2010 primarily as a result of the addition of an R&D credit reserve during the quarter. If recognized, $13.5 million of these unrecognized tax benefits (net of federal benefit) would be recorded as a reduction of future income tax provision before consideration of changes in valuation allowance.

Estimated interest and penalties related to the income taxes are classified as a component of the provision for income taxes in our condensed consolidated statement of operations. Accrued interest and penalties were $0.4 million and $0.3 million at the end of the three months ended June 27, 2010 and the three months ended June 28, 2009, respectively.

Our only major tax jurisdictions are the United States federal and various states. The fiscal years 2002 through 2010 remain open and subject to examinations by the appropriate governmental agencies in the United States and in certain of our state jurisdictions.

NOTE 18. SEGMENT AND GEOGRAPHIC INFORMATION

We operate in one reportable segment. We design, develop and market high-performance, analog and mixed-signal silicon solutions for a variety of markets including communications, datacom and storage, interface and power management. The nature of our products and production processes and the type of customers and distribution methods are consistent among all of our products.

Our net sales by product line are summarized as follows (in thousands):

	Three Months Ended	
	June 27, 2010	June 28, 2009
Communications	$ 6,849	$ 7,645
Datacom and storage	4,960	5,338
Interface	19,676	13,022
Power Management	8,151	4,857
Total net sales	$39,636	$30,862

* Incremental revenues from Hifn, Galazar and Neterion have been included in our condensed consolidated financial statements since April 4, 2009, June 18, 2009 and March 17, 2010, respectively.

Our foreign operations are conducted primarily through our wholly-owned subsidiaries in Canada, China, France, Germany, Italy, Japan, Malaysia, Singapore, 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 sales to unaffiliated customers.

Our net sales by geographic area are summarized as follows (in thousands):

	Three Months Ended	
	June 27, 2010	June 28, 2009
United States	$ 8,338	$ 7,184
China	13,824	11,264
Singapore	3,782	3,030
Japan	3,278	1,969
Europe	5,735	4,884
Rest of world	4,679	2,531
Total net sales	$39,636	$30,862

* Incremental revenues from Hifn, Galazar and Neterion have been included in our consolidated financial statements since April 4, 2009, June 18, 2009 and March 17, 2010, respectively.

Substantially all of our long-lived assets at each of June 27, 2010 and March 28, 2010 were located in the United States.

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. Risk Factors" 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," "could," "expect," "suggest," "believe," "anticipate," "intend," "plan," or other similar words. Forward-looking statements contained in this Quarterly Report include, among others, statements regarding (1) our revenue growth, (2) our future gross profits and margins, (3) our future research and development efforts and related expenses, (4) our future selling, general and administrative expenses, (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, (11) the volatile global economic and financial market conditions, and (12) anticipated results in connection with the acquisitions of hi/fn, inc. ("Hifn"), Galazar Networks, Inc. ("Galazar") and Neterion, Inc. ("Neterion"). Actual results may differ materially from those projected in the forward-looking statements as a result of various factors. Factors that could cause actual results to differ materially from those stated herein include, but are not limited to: the information contained under the captions "Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Part II, Item 1A. Risk Factors." We disclaim any obligation to update information in any forward-looking statement.

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 on Form 10-Q, and our audited consolidated financial statements for the fiscal year ended March 28, 2010 included in our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission ("SEC"). Our results of operations for the three months ended June 27, 2010 are not necessarily indicative of results to be expected for any future period.

BUSINESS OVERVIEW

Exar Corporation and its subsidiaries ("Exar" or "we") is a fabless semiconductor company that designs, sub-contracts manufacturing and sells highly differentiated silicon, software and subsystem solutions for industrial, telecom, networking and storage applications. Our core expertise in silicon integration, system architecture and software has enabled the development of innovative solutions designed to meet the needs of the evolving connected world. Our product portfolio includes power management and interface components, datacom products, storage optimization solutions, network security and applied service processors. Applying both analog and digital technologies, our products are deployed in a wide array of applications such as portable electronic devices, set top boxes, digital video recorders, telecommunication systems, servers, enterprise storage systems and industrial automation equipment. We provide customers with a breadth of component products and subsystem 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 through various regional and country specific distributors with locations in thirty-three countries around the globe. In addition to our sales offices, we also employ a worldwide team of field application engineers to work directly with our customers.

Our international sales consist of sales that are denominated in U.S. dollars. Our international related operations expenses expose us to fluctuations in currency exchange rates because our foreign operating expenses are denominated in foreign currency while our sales are denominated in U.S. dollars. Although foreign sales within certain countries or foreign sales comprised of certain products may subject us to tariffs, our gross profit margin on international sales, adjusted for differences in product mix, is not significantly different from that realized on our sales to domestic customers. Our operating results are subject to quarterly and annual fluctuations as a result of several factors that could materially and adversely affect our future profitability as described in *"Part II, Item 1A. Risk Factors—Our Financial Results May Fluctuate Significantly Because Of A Number Of Factors, Many Of Which Are Beyond Our Control."*

Our fiscal years consist of 52 or 53 weeks. In a 52-week year, each fiscal quarter consists of 13 weeks. The additional week in a 53-week year is added to the fourth quarter, making such quarter consist of 14 weeks. Fiscal year 2011 and fiscal year 2010 are each comprised of a 52-week period.

Business Outlook

As we complete our first three months ended June 27, 2010, we experienced continued sequential growth in net sales in our communication, interface and power management product lines and recorded our highest quarterly revenues in 15 years. We continue to work with our suppliers to ensure that we have access to their capacity, but like many in our industry, we are facing challenges. We continue to manage our operating expenses, and we expect to achieve costs synergies after our most recent acquisition, Neterion. We are managing our business, inventory levels in the channel and at end customers with uncertainty in the world economy. We have received positive feedback from strategic customers regarding our 10Gb Ethernet product offering and we are seeing increasing customer interest in our Power XR products. Given the macroeconomic risks versus the interest in our new products, we are cautiously optimistic about growing net sales in the second half of fiscal year 2011.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our financial statements and accompanying disclosures in conformity with GAAP requires estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities in the condensed consolidated financial statements and the accompanying notes. The SEC has defined a company's critical accounting policies as policies that are most important to the portrayal of a company's financial condition and results of operations, and which require a company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, we have identified our most critical accounting policies and estimates to be as follows: (1) revenue recognition; (2) valuation of inventories; (3) income taxes; (4) stock-based compensation; (5) goodwill; (6) long-lived assets; and (7) valuation of business combinations. Although we believe that our estimates, assumptions and judgments are reasonable, they are based upon information presently available. Actual results may differ significantly from these estimates if the assumptions, judgments and conditions upon which they are based turn out to be inaccurate. A further discussion of our critical accounting policies can be found in *"Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations"* of our Annual Report on Form 10-K for the fiscal year ended March 28, 2010.

RESULTS OF OPERATIONS

Net Sales by Product Line

Our net sales by product line in dollars and as a percentage of net sales were as follows for the periods presented (in thousands):

	Three Months Ended				
	June 27, 2010		June 28, 2009		Change
Net Sales:					
Communication	$ 6,849	17%	$ 7,645	25%	(10)%
Datacom and storage	4,960	13%	5,338	17%	(7)%
Interface	19,676	50%	13,022	42%	51%
Power Management	8,151	20%	4,857	16%	68%
Total	$39,636	100%	$30,862	100%	

* Net sales from Hifn, Galazar and Neterion have been included in our consolidated financial statements since April 4, 2009, June 18, 2009 and March 17, 2010, respectively. Software net sales have not been a significant part of our total net sales.

Communication

Net sales of communication products include network access, transport and transmission products as well as optical products. Net sales of communications products for the three months ended June 27, 2010 decreased $0.8 million as compared to the same period a year ago. The decrease is primarily due to lower shipments of our SDH/SONET products offset by a last time buy of an optical part from one of our partners.

Datacom and Storage

Net sales of datacom and storage products include network access, transmission and storage products, as well as encryption, data reduction and packet processing products and 10 Gigabit Ethernet controller silicon and card solutions. Net sales of datacom and storage products for the three months ended June 27, 2010 decreased $0.4 million as compared to the same period a year ago and included $0.6 million of additional sales of Neterion products. Excluding the additional Neterion sales, datacom and storage decreased $1.0 million primarily due to a decrease in orders of our data reduction products due to cancellation of products at certain customers.

Interface

Net sales of interface products include UARTs, video, imaging and other products as well as transceiver products. Net sales of interface products for the three months ended June 27, 2010 increased $6.7 million as compared to the same period a year ago, primarily due to higher shipments of our serial and UART products.

Power Management

Power management products include DC-DC regulators and LED drivers. Net sales of power management products for the three months ended June 27, 2010 increased $3.3 million as compared to the same period a year ago primarily due to higher shipments of our analog DC/DC parts partially offset by price erosion on certain products.

Net Sales by Channel

Our net sales by channel in dollars and as a percentage of net sales were as follows for the periods presented (in thousands):

	Three Months Ended				
	June 27, 2010		June 28, 2009		Change
Net Sales:					
Sell-through distributors	$22,020	56%	$15,297	50%	44%
Direct and others	17,616	44%	15,565	50%	13%
Total	$39,636	100%	$30,862	100%	

* Net sales from Hifn, Galazar and Neterion have been included in our consolidated financial statements since April 4, 2009, June 18, 2009 and March 17, 2010, respectively. Software net sales have not been a significant part of our total net sales.

Net sales to our distributors for which we recognize revenue on the sell-through method, for the three months ended June 27, 2010, increased as a percentage of total net sales as compared to the same period a year ago primarily due to the strength in our serial and power products in the three months ended June 27, 2010, which are products primarily sold through distributors.

Net sales to our direct and other distributors included $0.6 million of sales of our Neterion products.

Net Sales by Geography

Our net sales by geography in dollars and as a percentage of net sales were as follows for the periods presented (in thousands):

	Three Months Ended				
	June 27, 2010		June 28, 2009		Change
Net Sales:					
Americas	$ 8,662	22%	$ 7,316	24%	18%
Asia	25,239	64%	18,662	60%	35%
Europe	5,735	14%	4,884	16%	17%
Total	$39,636	100%	$30,862	100%	

* Net sales from Hifn, Galazar and Neterion have been included in our consolidated financial statements since April 4, 2009, June 18, 2009 and March 17, 2010, respectively. Software net sales have not been a significant part of our total net sales.

For the three months ended June 27, 2010, net sales in both the Americas and Asia included $0.3 million of Neterion sales.

Gross Profit

Our gross profit in dollars and as a percentage of net sales was as follows for the periods indicated (in thousands):

	Three Months Ended				
	June 27, 2010		June 28, 2009		Change
Net Sales	$39,636		$30,862		
Cost of sales:					
Cost of sales	19,225	49%	14,890	48%	29%
Fair value adjustment of acquired inventories	42	— %	1,787	6%	(98)%
Amortization of acquired intangible assets	1,553	4%	1,340	4%	16%
Gross profit	$18,816	47%	$12,845	42%	(46)%

Gross profit represents net sales less cost of sales. Cost of sales includes:

- the cost of purchasing finished silicon wafers manufactured by independent foundries;
- the costs associated with assembly, packaging, test, quality assurance and product yields;
- the cost of personnel and equipment associated with manufacturing support and engineering;
- the cost of stock-based compensation associated with manufacturing engineering and support personnel;
- the amortization of purchased intangible assets, acquired intellectual property and capitalized IPR&D;
- the fair value adjustment of acquired inventories;
- the provision for excess and obsolete inventory; and
- the sale of previously reserved inventory.

The increase in gross profit, as a percentage of net sales, for the three months ended June 27, 2010, was primarily due to the exclusion of amortization of the fair value of inventories acquired from Hifn and Galazar, and improved manufacturing utilization with the higher volume of shipments partially offset by higher sales of our serial transceivers and power products that carry lower margins.

We believe that gross margin will fluctuate as a percentage of sales and in absolute dollars due to, among other factors, sales mix, including the release of our new products which are designed to have better margins, manufacturing costs, our ability to leverage fixed operational costs across increased shipment volumes and competitive pricing pressure on our products.

Other Costs and Expenses

	Three Months Ended				
	June 27, 2010		June 28, 2009		Change
Net Sales	$39,636		$30,862		
R&D expense:					
R&D - base	11,813	29%	10,663	35%	8%
Stock-based compensation	1,556	4%	486	2%	275%
Amortization expense – acquired intangibles	1,074	3%	588	2%	83%
Accelerated depreciation and other	—	— %	557	2%	(100)%
Total R&D expense	$14,443	36%	$12,294	40%	17%
SG&A expense:					
SG&A - base	10,785	27%	10,337	33%	2%
Stock-based compensation	1,546	4%	707	2%	158%
Amortization expense – acquired intangibles	298	1%	142	— %	110%
Acquisition related costs	328	1%	3,926	13%	(92)%
Total SG&A expense	$12,957	33%	15,112	49%	(14)%

* Incremental revenues and operating expenses from Hifn, Galazar and Neterion have been included in our consolidated financial statements since April 4, 2009, June 18, 2009 and March 17, 2010, respectively.

Research and Development ("R&D")

Our R&D costs consist primarily of:

- the salaries, stock-based compensation, and related expenses of employees engaged in product research, design and development activities;
- costs related to engineering design tools, mask tooling costs, software amortization, test hardware, engineering supplies and services, and use of in-house test equipment;
- amortization of acquired intangible assets; and
- facilities expenses.

The $1.2 million increase in base R&D expenses for the three months ended June 27, 2010 as compared to the same period a year ago was primarily a result of incremental labor-related expenses due to the growth of our company as a result of the acquisitions of Galazar and Neterion.

In connection with the Hifn acquisition, we assumed a contractual agreement under which certain of our research and development costs are eligible for reimbursement. Amounts collected under this arrangement are offset against R&D expenses. For the first fiscal periods of 2011 and 2010, we offset $1.5 million and $0.7 million, respectively, of R&D expenses in connection with this agreement.

Stock-based compensation expense recorded in R&D expenses was $1.6 million for the three months ended June 27, 2010 as compared to $0.5 million for the same period a year ago. The increase in stock-based compensation is primarily attributable to grants of options and RSUs to employees in connection with our acquisitions and award based incentives to certain individuals. The growth in amortization expense – acquired intangibles relates to the increase in amortization of a R&D reimbursement contract associated with the Hifn acquisition.

Stock-based compensation will fluctuate, as our annual key employee incentive plan is equity based. Incentives are measured against our financial performance and individuals' goals.

Accelerated depreciation and other costs in the three months ended June 28, 2009 are primarily associated with the accelerated depreciation relating to shortened remaining lives of equipment of $0.5 million acquired from Hifn and employee severance costs.

We believe that research and development expenses will fluctuate as a percentage of sales and in absolute dollars due to, among other factors, higher mask costs in connection with advanced process geometries, development for our 10 Gigabit Ethernet products, increased investment in software development, higher salaries due to additional employees from acquired companies, incentives, as we reach profitability, annual merit increases and fluctuations in reimbursements under a research and development contract.

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

SG&A expenses consist primarily of:

- salaries, stock-based compensation and related expenses;
- sales commissions;
- professional and legal fees;
- amortization of acquired intangible assets such as distributor relationships, tradenames/trademarks and customer relationships; and
- acquisition related costs.

The $0.4 million increase in base SG&A expenses for the three months ended June 27, 2010 as compared to the same period a year ago, was primarily a result of incremental labor-related expenses.

Stock-based compensation expense recorded in SG&A expenses was $1.5 million for the three months ended June 27, 2010 as compared to $0.7 million for the same period a year ago. The increase in stock-based compensation is primarily attributable to grants of options and RSUs to employees in connection with our acquisitions, award based incentives to certain individuals and performance based RSU grants to our executive officers.

Stock-based compensation will fluctuate, as our annual key employee incentive plan is equity based. Incentives are measured against our financial performance and individuals' goals.

Acquisition related costs in the three months ended June 27, 2010 primarily reflect remaining payments on a vacated Neterion facility located in Sunnyvale, California. Acquisition related costs for the three months ended June 28, 2009 are primarily associated with $2.1 million in investment banker, printing, legal and other professional fees that are recorded as expenses under business combinations and the accelerated depreciation relating to shortened remaining lives of equipment of $0.7 million acquired from Hifn and employee severance of $0.6 million, and building exit and moving costs of $0.3 million related to the Hifn Los Gatos facility.

We believe that selling, general and administrative expenses will fluctuate as a percentage of sales and in absolute dollars due to, among other factors, salaries of employees from acquired companies, variable commissions, incentives as we reach profitability and annual merit increases.

Other Income and Expenses

	Three Months Ended				
	June 27, 2010		June 28, 2009		Change
Net Sales	$39,636		$30,862		
Interest income and other, net	1,613	4%	1,754	6%	(8)%
Interest expense	(318)	(1)%	(324)	(1)%	(2)%
Impairment charges on investments	—	— %	(72)	— %	100%

Interest Income and Other, Net

Interest income and other, net primarily consists of:

- interest income;
- sublease income;

- foreign exchange gains or losses;
- realized gains or losses on marketable securities; and
- gains or losses on the sale or disposal of equipment.

The decrease in interest income and other, net during the three months ended June 27, 2010 as compared to the same period a year ago was primarily attributable to a decrease in interest income as a result of lower invested cash balances.

Our Hillview Facility, which we originally leased from Mission West Properties, L.P., was sublet to a subtenant in April 2008. The sublease expires on March 31, 2011 with average annual rent of approximately $1.4 million. The sublease also requires the subtenant to pay certain operating costs associated with subleasing the facility. The sublease income for the three months ended June 27, 2010 was approximately $364,000. *See "Part I, Item 1, Notes to Condensed Consolidated Financial Statements,* Note 14 – Lease Financing Obligation." The sublease income is derived from a tenant who is a venture backed, private company. If the subtenant were to experience financial difficulties, our sublease would be impacted and costs to return the lease facility to the landlord could increase.

Interest Expense

In fiscal year 2008, in connection with the acquisition of Sipex, we assumed a lease financing obligation related to the Hillview Facility. We have accounted for this sale and leaseback transaction as a financing transaction which is included in the "Long-term lease financing obligation" line item on the condensed consolidated balance sheet. The effective interest rate is 8.2%.

We have also acquired engineering design tools ("design tools") under capital leases. We acquired $5.2 million of design tools in December 2007 under a four-year license, $3.7 million of design tools in November 2008 under a three-year license, and $1.3 million of design tools in February and June 2010 under two-year and three-year licenses, which were accounted for as capital leases and recorded in the "Property, plant and equipment, net" line item on the condensed consolidated balance sheets. The related design tool obligations were included in the "Long-term lease financing obligations" line on our condensed consolidated balance sheets. The effective interest rates for the design tools range from 4.0% to 7.25%.

Interest expense for the Hillview Facility lease financing and the design tools lease obligations was $0.3 million for each of the three months ended June 27, 2010 and the three months ended June 28, 2009.

Impairment Charges on Investments

We periodically review and determine whether our investments with unrealized loss positions are other-than-temporarily impaired. We regularly 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 to not 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. Realized gains and losses and declines in value of our investments, both marketable and non-marketable, judged to be other-than-temporary are reported in the "Impairment charges on investments" line item in the condensed consolidated statements of operations.

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

In the three months ended June 27, 2010, we did not record any impairment charges after our assessment of the valuation of the fund performance. In the three months ended June 28, 2009, we analyzed the fair value of the underlying investments of Skypoint Fund and concluded a portion of the carrying value was other-than-temporarily impaired and recorded an impairment charge of $72,000.

Provision for (Benefit from) Income Taxes

During the three months ended June 27, 2010 and the three months ended June 28, 2009, we recorded income tax expense of approximately $0.1 million and an income tax benefit of $0.3 million, respectively. The income tax expense was primarily due to taxes owed in foreign jurisdictions. The income tax benefit in the three months ended June 28, 2009 was primarily due to benefits for net operating losses and tax.

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LIQUIDITY AND CAPITAL RESOURCES

	Three Months Ended	
	June 27, 2010	June 28, 2009
	(dollars in thousands)	
Cash and cash equivalents	$ 9,063	$ 41,915
Short-term investments	199,098	179,553
Total cash, cash equivalents, and short-term investments	$208,161	$221,468
Percentage of total assets	63%	66%
Net cash used in operating activities	$ (969)	$ (4,455)
Net cash used in investing activities	(14,940)	(42,387)
Net cash used in financing activities	(514)	(245)
Net decrease in cash and cash equivalents	$ (16,423)	$ (47,087)

Our net loss was approximately $7.4 million for the three months ended June 27, 2010. After adjustments for non-cash items and changes in working capital, we used $1.0 million of cash through operating activities.

Significant non-cash charges included:

- Depreciation and amortization expenses of $5.6 million;
- Stock-based compensation expense of $3.3 million; and
- Provision for sales returns and allowances of $3.1 million.

Working capital changes included:

- a $3.5 million increase in accounts receivable primarily due to the release of pricing allowances that are included in the provision for sales returns and allowances line item of the consolidated statements of cash flow and higher shipments;
- a $3.8 million increase in inventories primarily due to higher material receipts for our serial and power products in anticipation of higher future shipments;
- a $1.4 million increase in accounts payable primarily due to higher inventory receipts; and
- a $0.9 million increase in deferred income and allowances on sales to distributors as our distributors have increased their inventories in response to improving end customer demand.

In the three months ended June 27, 2010, net cash used in investing activities reflects net purchases, sales and maturities of short-term marketable securities of $13.2 million partially offset by $1.7 million in purchases of property, plant and equipment and intellectual property.

From time to time, we acquire outstanding shares of our common stock in the open market to partially offset dilution from our equity awards, to increase our return on our invested capital and to bring our cash to a more appropriate level for our company. On August 28, 2007, we established a share repurchase plan ("2007 SRP") and authorized the repurchase of up to $100 million of our common stock. During the three months ended June 27, 2010, we did not repurchase any of our common stock under the 2007 SRP. As of June 27, 2010, the remaining authorized amount available under the 2007 SRP was $11.8 million with no termination date. We may continue to utilize our share repurchase plan, which would reduce our cash, cash equivalents and/or short-term investments available to fund future operations and to meet other liquidity requirements.

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

We anticipate that we will continue to finance our operations with cash flows from operations, existing cash and investment balances, and some combination of long-term debt and/or lease financing and additional sales of equity securities. The combination and sources of capital will be determined by management based on our needs and prevailing market conditions.

The following table summarizes our investments in marketable securities (in thousands):

	June 27, 2010			
	Amortized Cost	Unrealized Gross Gains	Unrealized Gross Losses	Fair Value
Money market funds	$ 5,629	$ —	$ —	$ 5,629
U.S. government and agency securities	52,915	753	—	53,668
Corporate bonds and commercial paper	81,995	838	(278)	82,555
Asset and mortgage-backed securities	62,600	430	(155)	62,875
Total investments	$203,139	$ 2,021	$ (433)	$204,727

	March 28, 2010			
	Amortized Cost	Unrealized Gross Gains	Unrealized Gross Losses	Fair Value
Money market funds	$ 19,616	$ —	$ —	$ 19,616
U.S. government and agency securities	58,943	835	(31)	59,747
Corporate bonds and commercial paper	61,240	900	(18)	62,122
Asset and mortgage-backed securities	64,329	496	(96)	64,729
Total investments	$204,128	$ 2,231	$ (145)	$206,214

As of June 27, 2010, asset-backed and mortgage-backed securities accounted for 9% and 22%, respectively, of our total investments in marketable securities of $204.7 million. These asset-backed securities are comprised primarily of premium tranches of auto loans and credit card receivables, while our mortgage-backed securities are primarily from Federal agencies. We do not own auction rate securities nor do we own securities that are classified as sub-prime. As of the date of this Report, we have sufficient liquidity and do not intend to sell these securities to fund normal operations nor realize any significant losses in the short term. As of June 27, 2010, the net unrealized gain of our asset-backed and mortgage-backed securities totaled $275,000.

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

RECENT ACCOUNTING PRONOUNCEMENTS

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

OFF-BALANCE SHEET ARRANGEMENTS

As of June 27, 2010, we had no off-balance sheet arrangements as defined in Item 303(a)(4) of the SEC's Regulation S-K.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Our contractual obligations and commitments at June 27, 2010 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)	$ 9,126	$ 9,126	$ —	$—	$ —
Long-term lease financing obligations (2)	6,726	5,256	1,470	—	—
Lease obligations (3)	3,971	3,172	799	—	—
Long-term investment commitments (Skypoint Fund) (4)	464	464	—	—	—
Remediation commitment (5)	130	80	10	40	—
Total	$20,417	$18,098	$2,279	$ 40	$ —

Note: The table above excludes the liability for unrecognized income tax benefit of approximately $3.6 million as of June 27, 2010 since we cannot predict with reasonable reliability the timing of cash settlements with the respective taxing authorities.

(1) We place purchase orders with wafer foundries 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 to 18 months from our existing cash balances.
(2) Includes licensing agreements related to engineering design software of $5.6 million. Also includes $1.1 million related to the Hillview Facility, but excludes approximately $12.2 million estimated final obligation settlement with the lessor by returning the Hillview Facility at the end of the lease term due on the Hillview Facility in Milpitas, California under a 5-year Standard Form Lease agreement that we signed with Mission West Properties, L.P. on March 9, 2006, as amended on August 25, 2007.
(3) Includes lease payments related to worldwide offices and buildings.
(4) The commitment related to the Skypoint Fund does not have a set payment schedule and thus will become payable upon the request from the Funds General Partner.
(5) The commitment relates to the environmental remediation activities of Micro Power Systems, Inc.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

If our foreign operations forecasts are overstated or understated during periods of currency volatility, we could experience unanticipated currency gains or losses. At June 27, 2010, we did not have significant foreign currency denominated net assets or net liabilities positions, and had no foreign currency contracts outstanding.

Investment Risk and Interest Rate Sensitivity. We maintain investment portfolio holdings of various issuers, types, and maturity dates with various banks and investment banking institutions. The market value of these investments on any given day during the investment term may vary as a result of market interest rate fluctuations. Our investment portfolio consisted of cash equivalents, money market funds and fixed income securities of $204.7 million as of June 27, 2010 and $206.2 million as of March 28, 2010. These securities, like all fixed income instruments, are subject to interest rate risk and will vary in value as market interest rates fluctuate. If market interest rates were to increase or decline immediately and uniformly by less than 10% from levels as of June 27, 2010, the increase or decline in the fair value of the portfolio would not be material. At June 27, 2010, the difference between the fair market value and the underlying cost of the investments portfolio was a net unrealized gain of $1.6 million.

Our short-term investments are classified as “available-for-sale” securities and the cost of securities sold is based on the specific identification method. At June 27, 2010, short-term investments consisted of asset and mortgage-backed securities, corporate bonds and government agency securities of $199.1 million.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures (“Disclosure Controls”)

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 Chief Executive Officer (the “CEO”), as principal executive officer, and Chief Financial Officer (the “CFO”), as principal financial officer.

Attached as Exhibits 31.1 and 31.2 of this Quarterly Report on Form 10-Q are the certifications of the CEO and the CFO, respectively, in compliance with 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.

Disclosure Controls are controls and procedures designed to ensure that information required to be disclosed in the reports filed or submitted under the Securities Exchange Act of 1934, as amended, 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 communications of information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934, as amended, to our management, including the CEO and CFO, to allow timely decisions regarding required disclosure.

Based on the Evaluation, our CEO and CFO have concluded that our Disclosure Controls are effective at the reasonable assurance level as of June 27, 2010.

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 us 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

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

Periodic declines or fluctuations in the U.S. dollar, corporate results of operations, interest rates, inflation or deflation, the global impact of sovereign debt, economic trends, actual or feared economic recessions, lower spending, the impact of conflicts throughout the world, terrorist acts, natural disasters, volatile energy costs, the outbreak of communicable diseases and other geopolitical factors, have had, and may continue to have, a negative impact on the U.S. and global economies. Volatility and disruption in the global capital and credit markets have led to a tightening of business credit and liquidity, a contraction of consumer credit, business failures, higher unemployment, and declines in consumer confidence and spending in the U.S. and internationally. If global economic and financial market conditions, currently showing signs of recovery, deteriorate or remain weak for an extended period of time, many related factors could have a material adverse effect on our business, operating results, and financial condition, including the following:

- slower spending and market fluctuations may result in reduced demand for our products, reduced orders for our products, order cancellations, lower revenues, increased inventories, and lower gross margins;
- we may be unable to predict the strength or duration of market conditions or the effects of consolidation of our customers in their industries, which may result in project delays or cancellations;
- we may be unable to find suitable investments that are safe, liquid, and 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 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, or experience difficulty obtaining financing in the capital and credit markets to purchase our products, or experience severe financial difficulty, it could result in insolvency, reduced orders for our products, order cancellations, inability to timely meet payment obligations to us, extended payment terms, higher accounts receivable, reduced cash flows, greater expenses associated with collection efforts, and increased bad debt expenses;
- if contract manufacturers or foundries of our products or other participants in our supply chain experience difficulty obtaining financing in the capital and credit markets to purchase raw materials or to finance general working capital needs, it may result in delays or non-delivery of shipments of our products;
- potential shutdowns or over capacity constraints by our third-party foundry, assembly and test subcontractors could result in longer lead-times, higher buffer inventory levels and degraded on-time delivery performance; and
- 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.

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 the recent economic downturn;
- the cyclical nature of the semiconductor industry;
- difficulty in predicting revenues and ordering the correct mix of products from suppliers due to limited visibility provided by customers and channel partners;
- fluctuations of our revenue and gross profits due to the mix of product sales as our margins vary by product;
- the impact of our revenue recognition policies on reported results; and
- the reduction, rescheduling, cancellation or timing of orders by our customers, distributors and channel partners due to, among others, the following factors:
  - management of customer, subcontractor and/or channel inventory;
  - delays in shipments from our subcontractors causing supply shortages;
  - inability of our subcontractors to provide quality products, in adequate quantities and in a timely manner;
  - dependency on a single product with a single customer and/or distributor;
  - volatility of demand for equipment sold by our large customers, which in turn, introduces demand volatility for our products;
  - disruption in customer demand as 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 to obtain components from their other suppliers;
  - disruption in sales or distribution channels;
  - our ability to maintain and expand distributor relationships;
  - changes in sales and implementation cycles for our products;

  - the ability of our suppliers and customers to remain solvent, obtain financing or fund capital expenditures as a result of the recent global economic slowdown;
  - risks associated with entering new markets;
  - the announcement or introduction of products by our existing competitors or new competitors;
  - loss of market share by our customers;
  - competitive pressures on selling prices or product availability;
  - pressures on selling prices overseas due to foreign currency exchange fluctuations;
  - erosion of average selling prices coupled with the inability to sell newer products with higher average selling prices, resulting in lower overall revenue and margins;
  - delays in product design 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' ability to maintain and manage appropriate inventory levels;
  - the availability and cost of materials and services, including foundry, assembly and test capacity, needed by us from our foundries and other manufacturing suppliers;
  - disruptions in our or our customers' supply chain due to natural disasters, fire, outbreak of communicable diseases, labor disputes, civil unrest or other reasons;
  - delays in successful transfer of manufacturing processes to our subcontractors;
  - fluctuations in the manufacturing output, yields, and capacity of our suppliers;
  - fluctuation in suppliers' capacity due to reorganization, relocation or shift in business focus, financial constraints, or other reasons;
  - problems, costs, or delays that we may face in shifting our products to smaller geometry process technologies and in achieving higher levels of design and device integration;
  - our ability to successfully introduce and transfer into production new products and/or integrate new technologies;
  - increased manufacturing costs;
  - higher mask tooling costs associated with advanced technologies; and
  - 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 stock options exercised;
- inability to generate profits to utilize net operating losses;
- increased costs and time associated with compliance with new accounting rules or new regulatory requirements;
- changes in accounting or other regulatory rules, such as the requirement to record assets and liabilities at fair value;
- write-off of some or all of our goodwill and other intangible assets;
- fluctuations in interest rates and/or market values of our marketable securities;
- litigation costs associated with the defense of suits brought or complaints made against us; and
- change in or continuation of certain tax provisions.

Our expense levels are based, in part, on expectations of future revenues and are, to a large extent, fixed in the short-term. Our revenues are difficult to predict and at times we have failed to achieve revenue expectations. We may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. If revenue levels are below expectations for any reason, our business, financial condition and results of operations could be materially and adversely impacted.

If we fail to develop, introduce or enhance products that meet evolving market needs or which are necessitated by technological advances, or we are unable to grow revenues, 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;
- increasing product development costs;
- long design-to-production cycles;
- competitive solutions;
- fluctuations in capital equipment spending levels and/or deployment;
- rapid adjustments in customer demand and inventory;
- increasing functional integration;
- moderate to slow growth;
- frequent product introductions and enhancements;
- changing competitive landscape (consolidation, financial viability); and
- finite market windows for product introductions.

Our growth depends in part on our successful continued development and acceptance of new products for our core markets. We must: (i) anticipate customer and market requirements and changes in technology and industry standards; (ii) properly define and develop new products on a timely basis; (iii) gain access to and use technologies in a cost-effective manner; (iv) have suppliers produce quality products; (v) continue to expand our technical and design expertise; (vi) introduce and cost-effectively manufacture new products on a timely basis; (vii) differentiate our products from our competitors' offerings; and (viii) 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, the trend towards increasing functional integration and other changes. Migration from older products to newer products may result in volatility of earnings 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. We could be required to invest significant time, effort and expenses 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 and understand 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 modify 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 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 materially adverse effect on our business, financial condition and results of operations.

We have recently 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;
- our assumption of known or unknown liabilities or other unanticipated events or circumstances; and
- the diversion of management's attention from day-to-day operations of the business and the resulting potential disruptions to the ongoing business.

Additional risks involved with acquisitions include:

- difficulties in integrating and managing various functional areas such as sales, engineering, marketing, and operations;
- difficulties in incorporating or leveraging acquired technologies and intellectual property rights in new products;
- difficulties or delays in the transfer of manufacturing flows and supply chains of products 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 and 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;
- the opportunity cost associated with committing capital in such investments;
- incurring large and immediate write-offs; and
- to the possibility of litigation resulting from acquisitions.

Additional risks involved with strategic equity investments include:

- the possibility of litigation resulting from these types of investments;
- the possibility that we may not receive a financial return on our investments or incur losses from these investments;
- a changed or poorly executed strategic plan; and
- the opportunity cost associated with committing capital in such investments.

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.

If we are unable to convert a significant portion of our design wins into revenue, our business, financial condition and results of operations could 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 their end-customer projects are unsuccessful in the market place or the end-customer terminates the project, which may occur for a variety of reasons. Mergers, consolidations or 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 greater than eighteen months. If we fail to 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 recent deteriorating 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.

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

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

If defects or bugs are discovered after commencement of commercial production, we may be required to make significant expenditures of capital and other resources to resolve the problems. This could result in significant additional development costs and the diversion of technical and other resources from our other 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.

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

Future and Nu Horizons 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 Nu Horizons 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 Nu Horizons 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 Nu Horizons declined dramatically. Our distributor agreements with Future and Nu Horizons do not contain minimum purchase commitments. As a result, Future and Nu Horizons could cease purchasing our products with short notice or cease distributing these 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.

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. As a consequence of 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, 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.

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 harm 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.

Our distributors 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 management personnel and our ability to identify, hire, incentivize and retain qualified personnel. If we lose key employees or fail to identify, hire, incentivize and retain these individuals, our business, financial condition and results of operations could be materially and adversely impacted.

Our future success depends, in part, on the continued service of our key design engineering, technical, sales, marketing and executive personnel and our ability to identify, hire, motivate and retain other qualified personnel.

Under certain circumstances, including a company acquisition 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 to offer equity compensation to as many key employees or in amounts consistent with market practices, as a result of regulations regarding the expensing of equity awards, may also adversely affect our ability to retain key employees, all of whom have been granted equity awards. In addition, competitors may recruit 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, and unanticipated additional recruitment and training 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 ("PRC"). Further, the PRC historically has different managing principles from Western style management and financial reporting concepts and practices, as well as in modern 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 management, legal and financial controls, collecting financial data, books of account and records and instituting business practices that meet Western standards, 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. 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.

If the proposed amendment to our 2006 Equity Incentive Plan to increase the aggregate share limit by 5,500,000 shares is not approved by our stockholders, we will cease to have sufficient equity available to issue to employees and directors and our ability to attract, retain, and motivate such individuals would be weakened, which would harm our business, financial condition and results of operations.

Stock-based awards are critical to our ability to recruit, retain and motivate highly skilled talent. Stock options and restricted stock units generally comprise a significant portion of our compensation packages for all employees and directors and are key elements of compensation used by companies with whom we compete for talent, particularly in the geographies where our employees are located. As of July 20, 2010, only 276,798 shares of Common Stock remained available for new award grants under our 2006 Equity Incentive Plan (the "2006 Plan"). We currently have a proposal before our stockholders to amend the 2006 Plan to increase the aggregate share limit by 5,500,000 shares. If these proposed amendments are not approved by our stockholders, the small number of shares which remain available for issuance under the 2006 Plan will be utilized in the coming months, the 2006 Plan will cease to be an effective attraction, retention and motivation tool and our ability to appropriately compensate our employees and directors will be at risk. Consequently, we may not continue to successfully attract and retain key employees and directors, which would have a material and adverse effect on our business, financial condition and results of operations.

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 for product deficiencies or intellectual property infringement that is in excess of our standard limited warranty indemnification and could possibly result in greater costs, in excess of the original contract value. In an attempt to limit this liability, we have purchased an errors and omissions insurance policy to partially offset these potential additional costs; however, our insurance coverage could be insufficient to prevent us from suffering material losses if the indemnification amounts are large enough or if there are coverage issues.

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

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

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.

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 may 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 GAAP, the excess purchase price, if any, over the fair value of these assets less liabilities typically would be allocated to goodwill. We evaluate goodwill for impairment on an annual basis or whenever events and changes in circumstances suggest that the carrying amount may not be recoverable. We typically conduct our annual analysis of our goodwill in the fourth quarter of our fiscal year. In-process research and development ("IPR&D") asset is considered an indefinite-lived intangible asset and is not subject to amortization until the conclusion of development. IPR&D must be tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of the IPR&D with its carrying amount. If the carrying amount of the IPR&D exceeds its fair value, an impairment loss must be recognized in an amount equal to that excess. After an impairment loss is recognized, the adjusted carrying amount of the IPR&D will be its new accounting basis. If the fair value of the IPR&D exceeds the carrying amount, no adjustment is recorded. Subsequent reversal of a previously recognized impairment loss is prohibited. Once the IPR&D projects have been completed, the useful life of the IPR&D asset is determined and amortized accordingly. Intangible assets that are subject to amortization are reviewed for impairment on an annual basis or whenever events and changes in circumstances suggest that the carrying amount may not be recoverable.

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

We have acquired and may in the future acquire intellectual property in order to accelerate our time to market for new products. Acquisitions of intellectual property may involve risks such as successful technical integration into new products, market acceptance of new products and achievement of planned return on investment. Successful technical integration in particular requires a variety of factors which we may not currently have, such as available technical staff with sufficient time to devote to integration, the requisite skill sets 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.

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 have substantially greater financial, 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, in some cases, severe pressure on pricing from some of our 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 losing our design opportunities or causing a decrease in our revenue and margins. Also, competition from new companies in emerging economy countries with significantly lower costs could affect our selling price and gross margins. In addition, if competitors in Asia reduce prices on commodity products, it would adversely affect our ability to compete effectively in that region. Specifically, we have licensed rights to Hangzhou Silan Microelectronics Co. Ltd. and Hangzhou Silan Integrated Circuit Co. Ltd. (collectively "Silan") in China to market our commodity interface products that 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 affect our operating results and financial condition. To the extent that our competitors offer distributors or sales representatives more favorable terms, these distributors and sales representatives may decline to carry, or discontinue carrying, our products. Our business, financial condition and

results of operations could be harmed by any failure to maintain and expand our distribution network. 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 future competitive performance depends on a number of factors, including our ability to:

- increase device performance and improve manufacturing yields;
- accurately identify emerging technological trends and demand for product features and performance characteristics;
- develop and maintain competitive and reliable products;
- enhance our products by adding innovative features that differentiate our products from those of our competitors;
- bring products to market on a timely basis at competitive prices;
- respond effectively to new technological changes or new product announcements by others;
- adapt products and processes to technological changes;
- adopt or set emerging industry standards;
- meet changing customer requirements; and
- provide adequate technical service and support.

Our design, development and introduction schedules for new products or enhancements to our existing and future products may not be met. In addition, these products or enhancements may not achieve market acceptance, or we may not be able to sell these products at prices that are favorable which could materially and adversely affect on our business, financial condition and results of operations.

Affiliates of Future, Alonim Investments Inc. and two of its affiliates (collectively "Alonim"), own approximately 17% of our common stock, and as such, Alonim is our largest stockholder. This ownership position will allow Future to significantly influence matters requiring stockholder approval. Future's ownership may increase as a percentage of our outstanding shares if we repurchase our common stock. In addition, an executive officer of Future is on our board of directors, which could lead to actual or perceived influence from Future.

An affiliate of Future, our largest distributor, owns a significant percentage of our outstanding shares and Pierre Guilbault, the chief financial officer of Future, is a member of our board of directors. Due to its affiliate's ownership of a significant percentage of our common stock, Future may be able to 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. The significant ownership percentage of Future could have the effect of delaying or preventing a change of control or otherwise discouraging a potential acquirer from obtaining control of us. Conversely, by virtue of Future's percentage ownership of our stock, Future could facilitate a takeover transaction that our board of directors did not approve.

This relationship could also result in actual or perceived attempts to influence management to 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 our 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.

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 packaged products. Any disruption in or loss of subcontractors' capacity to manufacture our products subjects us to a number of risks, including the potential for an inadequate supply of products and higher materials costs. These risks may lead to delayed product delivery or increased costs, which could materially and adversely impact our business, financial condition and results of operations.

We do not own or operate a semiconductor fabrication facility or a foundry. We utilize various foundries for different processes. Our products are based on Complementary Metal Oxide Semiconductor ("CMOS") processes, bipolar processes and bipolar-CMOS ("BiCMOS") processes. Globalfoundries Singapore Pte. Ltd. (f.k.a. Chartered Semiconductor Manufacturing Ltd.) ("Globalfoundries") manufactures the majority of the CMOS wafers from which the majority of our communications and UART products are produced. Episil Technologies, Inc. ("Episil"), located in Taiwan, and Silan, located in China, manufacture the majority of the CMOS and bipolar wafers from which our power and serial products are produced. High Voltage BiCMOS power products are supplied by Polar Semiconductor (MN, USA) and Jazz Semiconductor (CA, USA). All of these foundries produce semiconductors for many other companies (many of which have greater requirements than us), and therefore, we may not have access on a timely basis to sufficient capacity or certain process technologies and we do, from time to time, experience 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 process technologies or new products can be subject to especially wide variations in manufacturing yields and efficiency. There can be no assurance that our foundries or the foundries of our suppliers will not experience unfavorable yield variances or other manufacturing problems that result in delayed product introduction or delivery delays.

We do not have long-term wafer supply agreements with Globalfoundries that would guarantee wafer quantities, prices, and delivery or lead times, but we do provide minimum purchase commitments to Silan and Episil in accordance with our supply agreements. Subject to any such minimum purchase commitments, these foundries 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. There can be no assurance that our third-party foundries will allocate sufficient capacity to satisfy our requirements.

Furthermore, any sudden reduction or elimination of any primary source or sources of fully processed wafers could result in a material delay in the shipment of our products. Any delays or shortages will materially and adversely impact our business, financial condition and results of operations.

In addition, we may not continue to do business with our foundries on terms as favorable as our current terms. Significant risks associated with our reliance on third-party foundries include:

- consolidation in the industry leading to a change in control at key wafer suppliers;
- the lack of assured process technology and wafer supply;
- limited control over quality assurance, manufacturing yields and production costs;
- financial and operating stability of the foundries;
- limited control over delivery schedules;
- limited manufacturing capacity of the foundries; and
- potential misappropriation of our intellectual property.

Our reliance on our wafer foundries and assembly and test subcontractors involves the following risks:

- a manufacturing disruption or sudden reduction or elimination of any existing source or sources of semiconductor manufacturing materials or processes, which might include the potential closure, 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 relocation or limited capacity of the foundries or subcontractors;
- inability to obtain or develop 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 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 and weakening 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;
- disruption of transportation to and from Asia where most of our foundries and subcontractors are located;
- political, civil, labor and economic instability;
- embargoes or other regulatory limitations affecting the availability of raw materials, equipment or changes in tax laws, tariffs, services and freight rates; and
- compliance with 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 or having to qualify an alternative vendor;
- difficulties in selecting, qualifying and integrating new subcontractors;
- entry into "take-or-pay" agreements; and
- limited warranties from our subcontractors for products assembled and tested for us.

Our stock price is volatile.

The market price of our common stock has fluctuated significantly to date. 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's 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 impact our business, financial condition and results of operations.

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

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

The methods, estimates and judgments we use in applying our accounting policies have a significant impact on our results of operations. Such methods, estimates and judgments are, by their nature, subject to substantial risks, uncertainties, assumptions and changes in rulemaking by the 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 revenues, deferred income and allowances on sales to distributors and net income.

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 results of operations could be materially and adversely impacted if these assessments or any other assessments resulting from the examination of our income tax returns by the IRS or other taxing authorities are not resolved in our favor.

We have acquired significant Net Operating Loss ("NOL") carryforwards as a result of our acquisitions. The utilization of acquired NOL carryforwards is subject to the IRS's complex limitation rules that carry significant burdens of proof. 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.

On September 30, 2008, California enacted Assembly Bill 1452 which among other provisions, suspends net operating loss deductions for our fiscal years 2009 and 2010 and extends the carryforward period of any net operating losses not utilized due to such suspension; adopts the federal 20-year net operating loss carryforward period; phases-in the federal two-year net operating loss carryback periods beginning in fiscal year 2012 and limits the utilization of tax credits to 50 percent of a taxpayer's taxable income.

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 regulatory requirements;
- tariffs and other barriers;
- timing and availability of export or import licenses;
- disruption of services due to political, civil, labor, and 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 communications and other 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
- 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.

Because some of our integrated circuit 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 to communications 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. We first work with customers to achieve a design win, which may take nine 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 nine months. The customers of communications 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 our realization of revenue, if any, from volume purchasing of our communications products by our customers. Due to the length of the communications equipment vendors' product development cycle, the risks of project cancellation by our customers, price erosion or volume reduction are common aspects of such engagements.

Our backlog may not result in revenue.

Due to the possibility of 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 and weakened economy increases 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 sales during the same period.

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

Our corporate headquarters in Fremont, California is located near major earthquake faults that have experienced seismic activity. In addition, some of our 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 headquarters, our operations could be disrupted. Similarly, a major earthquake or other natural disaster 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.

Fixed operating expenses and our practice of ordering materials in anticipation of projected customer demand could make it difficult for us to respond effectively to sudden swings in demand and result in higher than expected costs and excess inventory. Such sudden swings in demand could therefore have a material adverse impact on our business, financial condition and results of operations.

Our operating expenses are relatively fixed in the short to medium term, and therefore, we have limited ability to reduce expenses quickly and sufficiently in response to any revenue shortfall. In addition, we typically plan our production and inventory levels based on forecasts of customer demand, which is highly unpredictable and can fluctuate substantially. From time to time, in response to anticipated long lead times to obtain inventory and materials from our outside suppliers and foundries, we may order materials in advance of anticipated customer demand. This advance ordering may result in excess inventory levels or unanticipated inventory write-downs if expected orders fail to materialize. This incremental cost could have a materially adverse impact on our business, financial condition and results of operations.

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

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

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

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

As a general matter, the semiconductor industry is characterized by 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 such 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.

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.

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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)

August 5, 2010

By /S/ KEVIN BAUER
Kevin Bauer
Vice President and Chief Financial Officer
(On the Registrant's Behalf and as Principal Financial and Accounting Officer)

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INDEX TO EXHIBITS

Exhibit Number	Exhibit	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	Amended and Restated Certificate of Incorporation	10-K	0-14225	3.1	6/12/2007	
3.2	Amended and Restated Bylaws	8-K	0-14225	3.1	12/10/2007	
10.1	Letter agreement, dated December 19, 2008, by and between Exar Corporation and Paul Pickering					X
10.2	Letter agreement, dated December 23, 2008, by and between Exar Corporation and George Apostol					X
10.3	Employment agreement, dated February 23, 2009, by and between Exar Corporation and Jiebing Wang	SC TO-T	0-14225	(d)(7)	3/5/2009	
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

Exhibit 10.1

December 19, 2008

Mr. Paul Pickering
[Address]

Dear Paul:

This letter sets forth the terms of your continued employment with Exar Corporation ("Exar") as Senior Vice President, Marketing, reporting to Pete Rodriguez, President and Chief Executive Officer, and amends and restates in its entirety the letter agreement between you and Exar dated May 19, 2008. Your annual salary will continue to be $230,000 paid bi-weekly in accordance with Exar's standard payroll practices.

As a hiring incentive, you were paid a signing bonus of $10,000. If your employment with Exar and its subsidiaries terminates for any reason (other than a reduction-in-force initiated by Exar) prior to the first anniversary of your hire date, you must repay the full amount of the signing bonus to Exar within 60 days following your termination.

You have been included in the FY2009 Executive Incentive Compensation Program, effective from April 1, 2008 to March 31, 2009. Your target award is 40% of your annual base salary. Your actual bonus will be determined and paid in accordance with the terms of the program.

In connection with your commencing employment with Exar, you were granted an option to purchase 100,000 shares of Exar common stock and 9,000 restricted stock units. These awards are subject to the terms and conditions set forth in the applicable award agreements.

In the event there is a Change of Control and your employment is terminated within twelve (12) months following the Change of Control date either by Exar without Cause or by you for Good Reason, (i) all options, restricted stock unit awards and other equity-based awards granted to you by Exar, to the extent then outstanding and otherwise unvested, will immediately vest, and (ii) you will be entitled to receive, within sixty (60) days following your termination and subject to all applicable withholdings, a lump sum severance payment equal to three months base salary plus one month base salary for each year of completed service with Exar, to a maximum aggregate severance payment equal to six months base salary; provided, however, that Exar's obligation to provide such accelerated vesting and such severance payment shall be contingent upon your providing to Exar, upon or promptly following your last day of employment with Exar, a valid, executed general release agreement in a form acceptable to Exar, and such release agreement not having been revoked by you pursuant to any revocation rights afforded by applicable law.

As used herein, the term "Cause" means (i) your conviction of any felony or conviction of any crime involving moral turpitude or dishonesty; (ii) participation in a fraud or act of dishonesty against Exar; (iii) conduct by you which, based upon a good faith and reasonable factual investigation and determination by Exar, demonstrates gross incompetence; or (iv) intentional, material violation by you of any contract between you and Exar or any statutory duty of you to Exar that is not corrected within thirty (30) days after written notice to you thereof. Physical or mental disability shall not constitute "Cause."

As used herein, the term "Good Reason" means, without your express written consent, (i) a material diminution in your authority, duties or responsibilities or (ii) a material diminution in your base compensation, provided that any such diminution shall not constitute "Good Reason" unless both (x) you provide written notice to Exar of the condition claimed to constitute Good Reason within ninety (90) days of the initial existence of such condition, and (y) Exar fails to remedy such condition within thirty (30) days of receiving such written notice thereof; and provided, further, that in all events the termination of your employment with Exar shall not be treated as a termination for "Good Reason" unless such termination occurs not more than six (6) months following the initial existence of the condition claimed to constitute "Good Reason."

As used herein, the term "Change of Control" means (i) a dissolution or liquidation of Exar; (ii) a merger or consolidation in which Exar is not the surviving corporation; (iii) a reverse merger in which Exar is the surviving corporation but the shares of Exar's common stock outstanding immediately preceding the merger are converted by virtue of the merger into other property, whether in the form of securities, cash or otherwise; (iv) any other capital reorganization in which more than thirty-five percent (35%) of the shares of Exar entitled to vote are exchanged, excluding in each case a capital reorganization in which the sole purpose is to change the state of incorporation of Exar; (v) a transaction or group of related transactions involving the sale of all or substantially all of Exar's assets; or (vi) the acquisition by any person, entity or group (excluding any employee benefit plan, or related trust, sponsored or maintained by Exar or any Exar subsidiary) of the beneficial ownership, directly or indirectly, of securities of Exar representing more than thirty-five percent (35%) of the combined voting power in the election of directors. For purposes of this paragraph, acquisition of ownership interests by any employee of Exar or its subsidiaries, whether through a "management buy-out" or otherwise, shall not constitute a "Change of Control."

Please sign and date in the space provided below to indicate your acceptance of the terms set forth herein and return one copy to Diane Hill, fax (510) 668-7011.

Sincerely,

/s/ Diane Hill
Diane Hill
Vice President
Human Resources

Agreed and Accepted:

/s/ Paul Pickering
Paul Pickering

12/22/08
Date

6/9/08
Start Date

Exhibit 10.2

December 23, 2008

Mr. George Apostol
[Address]

Dear George:

This letter sets forth the terms of your continued employment with Exar Corporation ("Exar") as Chief Technology Officer, reporting to Pete Rodriguez, President and Chief Executive Officer, and amends and restates in its entirety the letter agreement between you and Exar dated May 19, 2008. Your annual salary will continue to be $240,000 paid bi-weekly in accordance with Exar's standard payroll practices.

As a hiring incentive, you were paid a signing bonus of $20,000. If your employment with Exar and its subsidiaries terminates for any reason (other than a reduction-in-force initiated by Exar) prior to the first anniversary of your hire date, you must repay the full amount of the signing bonus to Exar within 60 days following your termination.

You have been included in the FY2009 Executive Incentive Compensation Program, effective from April 1, 2008 to March 31, 2009. Your target award is 40% of your annual base salary. Your actual bonus will be determined and paid in accordance with the terms of the program.

In connection with your commencing employment with Exar, you were granted an option to purchase 150,000 shares of Exar common stock and 15,000 restricted stock units. These awards are subject to the terms and conditions set forth in the applicable award agreements.

In the event there is a Change of Control and your employment is terminated within twelve (12) months following the Change of Control date either by Exar without Cause or by you for Good Reason, (i) all options, restricted stock unit awards and other equity-based awards granted to you by Exar, to the extent then outstanding and otherwise unvested, will immediately vest, and (ii) you will be entitled to receive, within sixty (60) days following your termination and subject to all applicable withholdings, a lump sum severance payment equal to three months base salary plus one month base salary for each year of completed service with Exar, to a maximum aggregate severance payment equal to six months base salary; provided, however, that Exar's obligation to provide such accelerated vesting and such severance payment shall be contingent upon your providing to Exar, upon or promptly following your last day of employment with Exar, a valid, executed general release agreement substantially in the form attached hereto as Exhibit A, and such release agreement not having been revoked by you pursuant to any revocation rights afforded by applicable law.

As used herein, the term "Cause" means (i) your conviction of any felony or conviction of any crime involving moral turpitude or dishonesty; (ii) participation in a fraud or act of dishonesty against Exar; (iii) conduct by you which, based upon a good faith and reasonable factual investigation and determination by Exar, demonstrates gross incompetence; or (iv) intentional, material violation by you of any contract between you and Exar or any statutory duty of you to Exar that is not corrected within thirty (30) days after written notice to you thereof. Physical or mental disability shall not constitute "Cause."

As used herein, the term "Good Reason" means, without your express written consent, (i) a material diminution in your authority, duties or responsibilities or (ii) a material diminution in your base compensation, provided that any such diminution shall not constitute "Good Reason" unless both (x) you provide written notice to Exar of the condition claimed to constitute Good Reason within ninety (90) days of the initial existence of such condition, and (y) Exar fails to remedy such condition within thirty (30) days of receiving such written notice thereof; and provided, further, that in all events the termination of your employment with Exar shall not be treated as a termination for "Good Reason" unless such termination occurs not more than six (6) months following the initial existence of the condition claimed to constitute "Good Reason."

As used herein, the term "Change of Control" means (i) a dissolution or liquidation of Exar; (ii) a merger or consolidation in which Exar is not the surviving corporation; (iii) a reverse merger in which Exar is the surviving corporation but the shares of Exar's common stock outstanding immediately preceding the merger are converted by virtue of the merger into other property, whether in the form of securities, cash or otherwise; (iv) any other capital reorganization in which more than thirty-five percent (35%) of the shares of Exar entitled to vote are exchanged, excluding in each case a capital reorganization in which the sole purpose is to change the state of incorporation of Exar; (v) a transaction or group of related transactions involving the sale of all or substantially all of Exar's assets; or (vi) the acquisition by any person, entity or group (excluding any employee benefit plan, or related trust, sponsored or maintained by Exar or any Exar subsidiary) of the beneficial ownership, directly or indirectly, of securities of Exar representing more than thirty-five percent (35%) of the combined voting power in the election of directors. For purposes of this paragraph, acquisition of ownership interests by any employee of Exar or its subsidiaries, whether through a "management buy-out" or otherwise, shall not constitute a "Change of Control."

Please sign and date in the space provided below to indicate your acceptance of the terms set forth herein and return one copy to Diane Hill, fax (510) 668-7011.

Sincerely,

/s/ Diane Hill
Diane Hill
Vice President
Human Resources

Agreed and Accepted:

/s/ George Apostol
George Apostol

12/30/08
Date

5/30/08
Start Date

EXHIBIT A
FORM OF RELEASE

I acknowledge that I have read and understand Section 1542 of the California Civil Code which reads as follows: **"A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."** I hereby expressly waive and relinquish all rights and benefits under that section and any law of any jurisdiction of similar effect with respect to my release of any claims I may have against the Company.

Except as otherwise set forth in this Agreement, in consideration of benefits I will receive under my offer letter, I hereby release, acquit and forever discharge the Company, its parents and subsidiaries, and their officers, directors, agents, servants, employees, shareholders, successors, assigns and affiliates, of and from any and all claims, liabilities, demands, causes of action, costs, expenses, attorneys' fees, damages, indemnities and obligations of every kind and nature, in law, equity, or otherwise, known and unknown, suspected and unsuspected, disclosed and undisclosed (other than any claim for indemnification I may have as a result of any third party action against me based on my employment with the Company), arising out of or in any way related to agreements, events, acts or conduct at any time prior to and including the Effective Date of this Agreement, including but not limited to: all such claims and demands directly or indirectly arising out of or in any way connected with my employment with the Company or the termination of that employment, including but not limited to, claims of intentional and negligent infliction of emotional distress, any and all tort claims for personal injury, claims or demands related to salary, bonuses, commissions, stock, stock options, or any other ownership interests in the Company, vacation pay, fringe benefits, expense reimbursements, severance pay, or any other form of compensation; claims pursuant to any federal, state or local law or cause of action including, but not limited to, the federal Civil Rights Act of 1964, as amended; the federal Age Discrimination in Employment Act of 1967, as amended ("ADEA"); the federal Americans with Disabilities Act of 1990; the California Fair Employment and Housing Act, as amended; tort law; contract law; wrongful discharge; discrimination; fraud; defamation; emotional distress; and breach of the implied covenant of good faith and fair dealing.

I acknowledge that I am knowingly and voluntarily waiving and releasing any rights I may have under ADEA. I also acknowledge that the consideration given for the waiver and release in the preceding paragraph hereof is in addition to anything of value to which I was already entitled. I further acknowledge that I have been advised by this writing, as required by the ADEA, that: (a) my waiver and release do not apply to any rights or claims that may arise after the Effective Date of this Agreement; (b) I have the right to consult with an attorney prior to executing this Agreement; (c) I have twenty-one (21) days to consider this Agreement (although I may choose to voluntarily execute this Agreement earlier); (d) I have seven (7) days following the execution of this Agreement by the parties to revoke the Agreement; and (e) this Agreement shall not be effective until the date upon which the revocation period has expired, which shall be the eighth (8th) day after this Agreement is executed by me, provided that the Company has also executed this Agreement by that date (the "Effective Date").

Exhibit 31.1

PRINCIPAL EXECUTIVE OFFICER CERTIFICATION

I, Pedro (Pete) P. Rodriguez, 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: August 5, 2010

/s/ Pedro (Pete) P. Rodriguez

Pedro (Pete) P. Rodriguez
Chief Executive Officer, President and Director
(Principal Executive Officer)

Exhibit 31.2

PRINCIPAL FINANCIAL OFFICER CERTIFICATION

I, Kevin Bauer, 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: August 5, 2010

/s/ Kevin Bauer

Kevin Bauer
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, Pedro (Pete) P. Rodriguez, 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 three months ended June 27, 2010 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: August 5, 2010

/s/ Pedro (Pete) P. Rodriguez
Pedro (Pete) P. Rodriguez
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, Kevin Bauer, certify, 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 three months ended June 27, 2010 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: August 5, 2010

/s/ Kevin Bauer
Kevin Bauer
Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)