# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**

## FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended March 29, 2015**

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

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

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

**SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:**

| Title of each class | Name of each exchange on which registered |
|---|---|
| **Common Stock, $0.0001 Par Value** | **New York Stock Exchange, Inc.** |

**SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 the Securities Act. Yes ☐ No ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§229.405 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in *Part III* of this Form 10-K or any amendment to this Form 10-K. ☐

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 Act). Yes ☐ No ☒

The aggregate market value of the outstanding voting stock held by non-affiliates of the Registrant as of September 26, 2014 was approximately $198.8 million based upon the last price reported in the NYSE-Composite transactions as of the last business day of the Registrant's most recently completed second fiscal quarter.

The number of shares outstanding of the Registrant's Common Stock was 48,047,601 as of June 2, 2015.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant’s 2014 Definitive Proxy Statement to be filed not later than 120 days after the close of the 2014 fiscal year are incorporated by reference into *Part III, Items 10, 11, 12, 13* and *14* of this Annual Report on Form 10-K.

**EXAR CORPORATION AND SUBSIDIARIES**

**INDEX TO**

**ANNUAL REPORT ON FORM 10-K**

**FOR FISCAL YEAR ENDED MARCH 29, 2015**

## PART I

*FORWARD-LOOKING STATEMENTS*

*This Annual Report on Form 10-K (this "Annual Report") contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are generally written in the future tense and/or may generally be identified by words such as "will," "may," "should," "would," "could," "expect," "suggest," "possible," "potential," "target," "commit," "continue," "believe," "anticipate," "intend," "project," "projected," "positioned," "plan," or other similar words. Forward-looking statements contained in this Annual Report include, among others, statements made in Part II, Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Executive Summary" and elsewhere regarding: (1) our future strategies and target market; (2) our future revenues, gross profits and margins; (3) our future research and development ("R&D") efforts and related expenses; (4) our future selling, general and administrative expenses ("SG&A"); (5) our cash and cash equivalents, short-term marketable securities and cash flows from operations being sufficient to satisfy working capital requirements and capital equipment needs for at least the next 12 months; (6) our ability to continue to finance operations with cash flows from operations, existing cash and investment balances, and some combination of long-term debt and/or lease financing and sales of equity securities; (7) the possibility of future acquisitions and investments; (8) our ability to accurately estimate our assumptions used in valuing stock-based compensation; (9) our ability to estimate and reconcile distributors' reported inventories to their activities; (10) our ability to estimate future cash flows associated with long-lived assets; and (11) the volatile global economic and financial market conditions. 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 factors contained under the captions Part I, Item 1—"Business," Part I, Item 1A—"Risk Factors" and Part II, Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations." You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document. We disclaim any obligation to revise or update information in any forward-looking statement, except as required by law.*

## ITEM 1. BUSINESS

### Overview

Exar Corporation ("Exar," "us," "our" or "we") designs, develops and markets high performance analog mixed-signal integrated circuits ("ICs") and advanced sub-system solutions for the Industrial and Embedded Systems, High-End Consumer and Infrastructure markets. Our comprehensive knowledge of end-user markets along with the underlying analog, mixed signal and digital technology has enabled us to provide innovative solutions designed to meet the needs of the evolving connected world. Applying both analog and digital technologies, our products are deployed in a wide array of applications such as industrial, instrumentation and medical equipment, networking and telecommunication systems, servers, enterprise storage systems, flat panel displays, LED lighting solutions, set top boxes and digital video recorders. We provide customers with a breadth of component products and sub-system solutions based on advanced silicon integration. Exar's product portfolio includes Connectivity, Power Management, High Performance Analog, Processors, Flat Panel Display and LED lighting.

We market our products worldwide with sales offices and personnel located throughout the Americas, Europe, and Asia. Our products are also sold through channel partners, including distributors and manufacturers' representatives. These channel partners are assisted and managed by our regional sales teams. In addition to our regional sales teams, we also employ a worldwide team of field application engineers ("FAE") to work directly with our customers.

Exar was incorporated in California in 1971 and was reincorporated in Delaware in 1991. Our common stock trades on The New York Stock Exchange ("NYSE") under the symbol "EXAR". See the information in *Part II, Item 8*—"*Financial Statements and Supplementary Data"* for information on our financial position as of March 29, 2015 and March 30, 2014 and results of operations and cash flows for fiscal years ended March 29, 2015, March 30, 2014 and March 31, 2013.

### Core Competencies and Key Initiatives

*Analog and Mixed-Signal Design Expertise*—We have over 40 years of proven technical competency in developing analog and mixed-signal ICs. As a result, we have developed a deep understanding of the subtleties of analog and mixed-signal design and a comprehensive library of analog core blocks. We leverage this expertise across our broad range of products and in our new product development efforts. From programmable power management chips to advanced telecommunications products, our solutions share a heavy concentration of analog and mixed-signal content to achieve high performance, power efficient solutions for our customers.

*Signal Path Solutions* — Our focus on signal path includes a wide selection of high performance or high precision amplifiers, data converters and reference circuitries. We design and develop amplifiers and data converters that support the diverse signal path and conditioning needs of networking, industrial control and embedded applications.

*Enhanced System Integration* — Our effort to provide comprehensive solutions that encompass hardware, software and applications support is fundamental to our initiative in networking and storage applications. The combination of our design expertise, diverse circuit technology and system-level expertise enables us to provide complete solutions that are used in data compression and aggregation, data transmission, acceleration and computer offloading. We believe that by using our solutions, original equipment manufacturers ("OEMs") can develop higher performance systems, better leverage their development resources and reduce their time-to-market.

**Markets**

We sell our products into three primary markets: Industrial and Embedded Systems, High-End Consumer and Infrastructure.

*Industrial and Embedded Systems*— The Industrial and Embedded Systems Market is a broad market made up of tens of thousands of customers serving fields such as manufacturing, medical, energy, and automotive. Our devices perform numerous industrial control and embedded applications such as facilitating and optimizing the interface across and between systems and networks, power management, signal conditioning, and data conversion.

*High-End Consumer*— The High-End Consumer Market is a large market made up of various consumer products such as flat panel displays (e.g. televisions, monitors, personal computers, laptops, tablets, cellular phones, phablets), LED light bulbs, and set-top boxes. With our solutions, flat panel display customers have the flexibility of selecting a wide variety of display analog products to meet the system requirements of power efficiency, bill of materials ("BOM") cost, and form factors such as narrow bezel design. This portion of the market is more concentrated, with a limited number of large customers and the supply chain that supports them. Our patent protected, proprietary AC Step driver solutions support a wide range of LED lighting products.

*Infrastructure*— The Infrastructure Market is also a broad market made up of industries such as telecommunications and networking and data storage. We provide solutions for data and telecommunication systems, servers and routers, enterprise storage systems, and other applications.

**Products**

Our products are organized into six primary product lines, which allow product definition based on market opportunities and trends. We define our product lines as Connectivity, Power Management, High Performance Analog, Processors, Flat Panel Display and LED lighting.

*Connectivity*

The demand for connectivity is projected to grow significantly during the next decade as the Internet evolves to support machine-to-machine connectivity within the Internet of Things ecosystem. The need to connect billions of devices at home, in the office and in factories through the Internet is driving the requirement for smart connectivity solutions. Our connectivity product strategy is to continue to enhance our portfolio with higher speed, lower power and enhanced functionality devices that meet the growing demands of our customers. Growth drivers in our connectivity product business include increased integration and value through the introduction of differentiated bridging products for popular and growing bus interfaces such as Universal Serial Bus ("USB"), Ethernet, Peripheral Interconnect Express ("PCIe"), as well as innovative new UARTs and serial transceiver devices.

Our focus on connectivity is a key initiative that drives product strategy and serves as a foundation for our customer engagements. We have added system architecture expertise and extended our product portfolio to offer new silicon products. Our connectivity solutions serve data and telecommunications, networking and storage, industrial control and embedded applications. Our devices facilitate and optimize the interface between systems and across networks with Serial Transceivers, Multi-Protocol Interface products, Universal Asynchronous Receiver/Transmitters ("UARTs") and interface Bridges.

Typical applications include point-of-sale, process control, and factory automation, as well as servers, embedded systems, routers, network management equipment, remote access servers, wireless base-stations and repeaters.

Our UARTs product portfolio ranges from cost-effective industry-standard devices to high performance multi-channel UARTs with a broad range of first in, first out depths and industry leading performance and features. We support popular central processing unit ("CPU") bus interfaces such as 8-bit Industry Standard Architecture, 8-bit VLIO, 2-wire Inter-Integrate Circuit, 4-wire Serial Peripheral Interface, Peripheral Component Interconnect, PCIe and USB. We have also added USB to Ethernet bridging solutions which also include UARTs for serial connectivity.

Our serial transceiver solutions consist of Recommended Standard ("RS")-232, RS-485, RS-422 and multiprotocol devices that ensure reliable connectivity between computing devices. Our RS-232, RS-485 and RS-422 transceivers comply with international standards in delivering multi-channel digital signals between two systems. Our proprietary multiprotocol transceivers enable network equipment to communicate with a large population of peripherals that use a diverse set of serial protocol standards without the added burden of multiple add-on boards and cables.

*Power Management*

The market for power management components is a large and diverse semiconductor segment covering a wide range of requirements. We have developed solutions for DC/DC voltage conversion and supervision. Our products are designed to support the needs of various infrastructure and industrial and embedded system applications.

Our focus on power management includes traditional linear and switching power management solutions as well as an innovative approach to software programmable power management with the universal PMIC family. We have also introduced a new family of programmable power module solutions that provide programmable power conversion with integrated inductors for the smallest profile solutions on the market.

We provide analog control of DC voltages and deliver regulated power to electronic systems such as data and telecommunication systems, servers and routers, enterprise storage systems, industrial control and process automation equipment, set top boxes, digital video recorders and portable electronic devices. Our Universal PMIC solutions based off our leading programmable power technology provide system designers the ability to reconfigure the power management sub-system through a software interface. This proprietary approach enables customers to reduce product development cycles from many months to several weeks and provides a flexible and configurable solution for control of critical attributes of the power management system.

Our patented programmable power technology combines digital control and monitoring with our high performance analog circuitry, enabling the system architect to design products that significantly reduce wasted energy and are quickly reconfigurable.

Our Power Module devices provide customers the ability to design small power supplies with high efficiency. These solutions leverage our programmable power technology or our patented constant-on-time analog control architecture.

Power management product development requires close customer interaction, advanced design skills and world-class process and package development capability and design tools. As a fabless semiconductor manufacturer, we have access to a broad range of wafer fabrication facilities and process technologies. This access to leading process technology and our ongoing investment in analog and mixed-signal design automation tools enables us to compete with the world's leading manufacturers of analog power management products.

*High Performance Analog*

The demand for signal amplification, conditioning and conversion is a required part of any system given that the real world is analog, connecting sight, touch and sound. With our acquisition of Cadeka Microcircuits LLC ("Cadeka"), we have over 250 products that range from amplifiers to data converters with emphasis on either high precision or high speed. Our portfolio of products includes instrumentation, low noise, high speed and hybrid amplifiers, as well as high speed analog-to-digital converters ("ADCs") and digital-to-analog converters. As a performance leader, we offer some of the industry's lowest noise and distortion amplifiers and lowest power consumption high speed ADCs. Our amplifier and data converter products are designed to meet the needs of various industrial, medical, and video applications.

*Processors*

We provide highly integrated semiconductors, board level products, and system solutions that enable OEMs to develop high performance computing, storage and networking equipment with low power consumption.

With the rapid growth of data volume and Input/Output ("I/O") performance of CPUs far outpacing storage I/O performance improvements, overall computing performance is increasingly limited by storage I/O throughput. Data compression is a cost-effective way to improve I/O throughput compared to other solutions such as Solid State Disks or distributed parallel systems. Our chips and boards can achieve compression throughput up to 40Gbps. We enable storage and data analytics vendors to improve storage efficiency with lower cost and lower power as compared to general purpose CPUs or other hardware offload solutions. Our solution off-loads specific tasks from the general purpose CPU by providing compression, encryption and hashing technology in a single pass with low latency to reduce and de-duplicate data at high throughput. Deployment of our devices can be found in storage and data analytics appliances such as data warehouses, Hadoop clusters, data backup, remote replication and cloud storage.

Equipment vendors utilize our products for bandwidth optimization and security. As more companies migrate applications to the Cloud there is an increasing need by cloud service providers to secure and optimize the connection between the Cloud and their customers. Our devices enable networking equipment vendors to supply cloud infrastructure with competitive advantages in cost and power. Our compression technology can be used in wide area network optimization to improve bandwidth, and our high throughput security technology is used in public-key handshakes and symmetric encryptions for secure sockets layer and internet protocol security connections to secure traffic.

Our devices and board level products are supported by our software development kit (“SDK”) and also by an open-source Exalerator solution software kit. These software kits are designed to enable a fast development and integration cycle. Our devices together with SDK and Exalerator software kits have been widely deployed at several leading computing, storage and networking OEM customers.

Our video processor solutions offering is focused on the fast-growing surveillance industry. We offer chip- and board-level solutions for a wide variety of surveillance products including IP Cameras, DVRs, Hybrid NVRs and video streamers. We are also leaders in new methods of video transmission including High Definition Composite Video Interface (“HD CVI”), which is a method to transmit high-definition video over long distance coax cables.

The surveillance industry is demanding ever increasing pixel counts growing from standard definition video, to high definition, to 4K (“Ultra HD”) (from 345 thousand to 8 million pixels). Our video processors can be configured to handle multiple standard definition video streams or a single 4K video stream, depending on the application.

Our software stack is optimized for the unique needs of the surveillance industry and has been production proven by the industry's largest manufacturers for over seven years.

*Flat Panel Display*

Our display analog products are designed to meet the emerging application requirements of UHD (4K2K resolution) LCD and OLED TV panels, as well as Tablets and Phablets. We continue to maintain a leadership position in TV programmable-Gamma (P-Gamma) IC for display color control, and have further extended our leadership of P-Gamma IC into monitor applications. Our advanced multi-channel programmable Power Management ICs (PMICs) offer excellent product features, power efficiency, reduced BOM cost, and small form factors for narrow bezel Tablets and Phablets.

*LED Lighting*

Our patented low voltage AC Step drivers are finding increased acceptance in lighting applications that are expected to grow rapidly in the next decade. Our proprietary solution also addresses a key customer requirement by providing significantly lower BOM cost while increasing power efficiency as the AC Step drivers do not require AC-DC conversion circuitry typically used to drive LED lighting.

**Strategy**

Our goal is to be a leading provider of high performance analog mixed-signal integrated circuits and advanced sub-system solutions for Industrial and Embedded Systems, High-End Consumer, and Infrastructure markets. To achieve our long-term business objectives, we employ the following strategies:

*Leverage Analog and Mixed-Signal Design Expertise to Provide Integrated System-Level Solutions*—Utilizing our analog and mixed-signal design expertise, we integrate mixed-signal physical interface devices for a broad range of silicon solutions. This capability continues to be the backbone of our integration strategy and enables us to offer optimized solutions to the markets we serve. Our customers depend on analog and mixed-signal integration for power reduction, size optimization and signal integrity.

*Expand Product Portfolio*—We have developed a strong presence in the data and telecommunications, networking and storage, industrial control and automation markets where we have industry leading customers and proven technological capabilities. Our design expertise has enabled us to offer a diverse portfolio of both industry standard and proprietary products serving a range of connectivity, power management, signal path needs and high definition display electronics. Our extensive product portfolio provides the framework for customers to work with many of our products on a single board design. Our ability to serve the various needs of a customer’s system enables us to meet procurement and support demands by providing a single point of contact for applications support and supply chain management while reducing its number of vendors.

*Grow Market Share with System Solutions*—We create systems solutions by coupling system expertise, software and advanced silicon integration to provide an optimized solution that is designed to be technically compelling and cost effective, resulting in distinctive device and system products like XRP9711 power modules.

*Strengthen and Expand Strategic OEM Relationships*— To promote the early adoption of our solutions, we actively seek collaborative relationships with strategic OEMs during product development. We believe that OEMs recognize the value of our early involvement because designing their system products in parallel with our development can accelerate time-to-market for their end products. Collaborative relationships also help us to obtain early design wins and to increase the likelihood of market acceptance of our new products, while giving us the advantage of being the incumbent device provider on future generations of our customers' platforms.

*Use Standard Complementary Metal Oxide Semiconductor ("CMOS") and Bipolar CMOS-DMOS ("BCD") Process Technologies to Provide Compelling Price/Performance Solutions* —We design our products to be manufactured using standard CMOS, Bipolar and BCD processes. We believe that these processes are proven, stable and predictable and benefit from the extensive semiconductor-manufacturing infrastructure devoted to CMOS, Bipolar and BCD processes. In certain specialized cases, we may use other process technologies to take advantage of their performance characteristics.

*Employ Fabless Semiconductor Model*—We have long-standing relationships with third-party wafer foundries and assembly and test subcontractors to manufacture our ICs. Our fabless approach allows us to avoid substantial capital spending, obtain competitive pricing, minimize the negative effects of industry cycles, reduce time-to-market, reduce technology and product risks, and facilitate the migration of our products to new CMOS, Bipolar and BCD process technologies. By employing the fabless model, we can focus on our core competencies in product design, development and support, as well as on sales and marketing.

*Broaden Sales Coverage with Channel Partners*—We have strong relationships with our distributors, catalog firms and sales representatives throughout the world, from which we derive a significant portion of our total revenue. Through our partners, we have access to large market segments that we cannot directly support. Through these relationships, we extend our expertise and product exposure by enabling our partners to discover new demands for our solutions as well as aid us in defining our next generation solutions.

**Sales and Customers**

We sell our products globally through both direct and indirect channels. In the United States we have our own direct sales force and are also represented by 21 independent sales representatives, three independent non-exclusive distributors, and three catalog distributors. We currently have domestic presences in Florida, North Carolina, Massachusetts, Minnesota, Maine, Oregon, New Jersey, Colorado, Delaware, Texas and California.

Internationally, we are represented in Canada, Europe and Asia by our wholly-owned foreign subsidiaries and international support offices in Canada, China, France, Germany, Italy, Hong Kong, South Korea, Taiwan and the United Kingdom. In addition to these offices, approximately 49 independent sales representatives and other independent, non-exclusive distributors represent us internationally. The percentage of our net sales represented by certain geographies is as follows:

| | Fiscal Years Ended | | |
|---|---|---|---|
| | March 29, 2015 | March 30, 2014 | March 31, 2013 |
| China | 38% | 35% | 34% |
| United States | 14% | 29% | 26% |
| Taiwan | 11% | 3% | 4% |
| Korea | 10% | 3% | 3% |
| Singapore | 9% | 11% | 11% |
| Germany | 7% | 9% | 10% |
| Rest of world | 11% | 10% | 12% |
| **Total net sales** | 100% | 100% | 100% |

We expect international sales to continue to be a significant portion of our net sales in the future. All of our sales to foreign customers are denominated in U.S. dollars. For a detailed description of our sales by geographic regions, see *Part II, Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations, Net Sales by Geography*" and *Part II, Item 8—"Notes to Consolidated Financial Statement, Note 19—Segment and Geographic Information."* For a discussion of the risk factors associated with our foreign sales, see *Part I, Item 1A—"Risk Factors—'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'."*

We sell our products to OEMs or their designated subcontract manufacturers and distributors (affiliated and unaffiliated) who buy our products and resell to their customers throughout the world. The following distributors accounted for 10% or more of our net sales in the fiscal years indicated below:

| | Fiscal Years Ended | | |
|---|---|---|---|
| | **March 29, 2015** | **March 30, 2014** | **March 31, 2013** |
| Distributor A | 22% | 27% | 30% |
| Distributor B | *% | 21% | 11% |
| Distributor C | *% | 12% | 10% |

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

No other distributor or customer accounted for 10% or more of our net sales in fiscal years 2015, 2014 or 2013 .

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

| | **March 29, 2015** | **March 30, 2014** |
|---|---|---|
| Distributor E | 12% | * |
| Distributor B | 11% | 17% |
| Distributor D | 10% | 14% |
| Customer D | 10% | * |
| Distributor A | * | 16% |
| Distributor C | * | 12% |

* Net accounts receivable for this distributor for this period were less than 10% of our net accounts receivables.

No other distributor or customer accounted for 10% or more of our net accounts receivable as of March 29, 2015 or March 30, 2014.

**Manufacturing**

We outsource all of our fabrication and assembly, as well as the majority of our testing operations. This fabless manufacturing model allows us to focus on product design, development and support as well as on sales and marketing.

Our products are manufactured using standard CMOS, bipolar, bipolar CMOS (“BiCMOS”) and BCD process technologies. We use wafer foundries located in the United States, Europe, and Asia to manufacture our semiconductor wafers.

Most of our semiconductor wafers are shipped directly from our foundry partners to our subcontractors in Asia for wafer test and assembly where the wafers are cut into individual dies and packaged. Independent contractors in China, Indonesia, Malaysia and Taiwan perform most of our assembly work. Final test and quality assurance are performed at our subcontractors’ facilities in Asia or at a subcontractor in California. Most of our board products are manufactured in the United States. All of our primary manufacturing partners are certified to ISO 9001:2008.

**Research and Development**

We believe that ongoing innovation and introduction of new products in our targeted and adjacent markets is essential to delivering growth. Our ability to compete depends on our ability to offer technologically innovative products on a timely basis. As performance demands and the complexity of ICs have increased, the design and development process has become a multi-disciplinary effort requiring diverse competencies.

Our research and development efforts will continue to focus on developing high performance analog, digital and mixed-signal solutions addressing the requirements of communications and storage systems OEMs and the high-current, high-voltage, ultra-low voltage, high precision or high speed requirements of interface, power management and signal path OEMs as well as requirements for highly integrated cost effective solutions for high performance consumer OEMs.

We make investments in advanced design tools, design automation and high performance intellectual property libraries while taking advantage of readily available specialty intellectual property through licensing or purchases. We also augment our skill sets and intellectual property through university collaboration, incorporating talent through acquisition and by accessing needed skills with off-campus design centers. We continue to pursue the development of design methodologies that are optimized for reducing design cycle time and increasing the likelihood of first-time success. In addition to the United States, we have a substantive research and development presence in Taiwan. We invested an aggregate of $37.2 million, $27.0 million and $22.4 million in research and development in fiscal years 2015, 2014 and 2013, respectively. For further explanation of our research and development expenses, please see *Part II, Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations.*"

**Competition**

The semiconductor industry is intensely competitive and is characterized by rapid technological change and a history of price reductions as design improvements and production efficiencies are achieved in successive generations of products. Although the market for analog and mixed-signal ICs is generally characterized by longer product life cycles and less dramatic price reductions than the market for digital ICs, we face substantial competition in each market in which we participate.

We believe that the principal competitive factors in the market segments in which we operate are:

- time-to-market;
- product innovation;
- product performance, quality, reliability, cost and features;
- customer requirements, support, services and engagements;
- price;
- rapid technological change;
- number of design wins released to production;
- lowering total system cost; and
- compliance with and support of industry standards.

We compete with many other companies and many of our current and potential competitors may have certain advantages over us such as:

- longer presence in key markets;
- greater brand recognition;
- more secure supply chain;
- access to larger customer bases;
- broader product offerings;
- deeper engagement with customers;
- stronger financial position and liquidity; and
- significantly greater sales, marketing, development, and other resources.

Competitors in our Industrial and Embedded Systems and Infrastructure markets include companies such as Analog Devices, Inc., Integrated Device Technology, Inc., Intersil Corporation, Linear Technology Corporation, Maxim Integrated Products, Inc., Monolithic Power Systems, NXP B.V., Silicon Labs, Texas Instruments Incorporated, Micrel Incorporated, Ambarella, Inc., HiSilicon Technologies Co., Ltd., Cavium Networks and Intel. Competitors in High-End Consumer products include companies such as Texas Instruments Incorporated, Intersil Corporation, Chipone, Novatek Microelectronics Corporation and Global Mixed-mode Technology, Inc. See *Part I, Item 1A—"Risk Factors—'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'."*

**Backlog**

Our sales are made pursuant to either purchase orders for current delivery of standard items or agreements covering purchases over a period of time, which are frequently subject to revisions and, to a lesser extent, cancellations with little or no penalties. Lead times for the release of purchase orders depend on the scheduling practices of the individual customer, and our rate of bookings varies from month-to-month. Certain distributors' agreements allow for stock rotations, scrap allowances and volume discounts. Further, we defer recognition of revenue on shipments to certain distributors until the product is sold to end customers. For all of these reasons, we believe backlog as of any particular date should not be used as a predictor of future sales.

**Intellectual Property Rights**

To protect our intellectual property, we rely on a combination of patents, mask work registrations, trademarks, copyrights, trade secrets, and employee and third-party nondisclosure agreements. As of March 29, 2015, we have 225 patents issued and 11 patent applications pending in the United States and approximately 40 patents issued and 25 patent applications pending in various foreign countries. Through our acquisition of iML, we acquired an additional 102 issued and pending patents. Our existing patents will expire between 2015 and 2031, or sooner if we choose not to pay renewal fees. We may also enter into license agreements or other agreements to gain access to externally developed products or technologies. While our intellectual property is critically important, we do not believe that our current or future success is materially dependent upon any one patent or technology.

Despite our protection efforts, we may fail to adequately protect our intellectual property. Others may gain access to our trade secrets or disclose such trade secrets to third parties without our knowledge. Some or all of our pending and future patent applications may not result in issued patents that provide us with a competitive advantage. Even if issued, such patents, as well as our existing patents, may be challenged and later determined to be invalid or unenforceable. Others may develop similar or superior products without access to or without infringing upon our intellectual property, including intellectual property that is protected by trade secrets and patent rights. In addition, the laws of certain territories in which our products are or may be developed, manufactured, used or sold, including Asia, Europe, the Middle East and Latin America, may not protect our products and intellectual property rights to the same extent as the laws of the United States of America.

We cannot be sure that our products or technologies do not infringe patents that may be granted in the future pursuant to pending patent applications or that our products do not infringe any patents or proprietary rights of third parties. Occasionally, we are informed by third parties of alleged patent infringement. In the event that any relevant claims of third-party patents are found to be valid and enforceable, we may be required 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, although such license may not be available on commercially reasonable terms, if at all; or
- redesign our products so as not to use the infringed intellectual property, which may not be technically or commercially feasible or meet customer requirements.

If we are required to take any of the actions described above or defend against any claims from third parties, our business, financial condition and results of operations could be harmed. See *Part I, Item 1A—"Risk Factors—'We may be unable to protect our intellectual property rights, which could harm our competitive position' and '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'."*

**Acquisitions**

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

We completed a significant strategic restructuring process during fiscal year 2015. This restructuring was prompted by the recent acquisition of iML, and an associated significant reduction in force, including reductions at our Hangzhou, China and Loveland, Colorado units. As a result of this restructuring and the resultant re-prioritization of resources, we anticipate a decline in forecasted revenue related to certain intangible assets that were acquired in prior business combinations. Consequently, we performed an intangible assets impairment review during the second quarter of fiscal year 2015. Upon completion of this review, we recorded $12.3 million of impairment charges to acquired intangibles for the three and six months ended September 28, 2014. Of these impairment charges, $7.5 million and $4.8 million are related to High-Performance Analog and Data Compression products, respectively.

On January 14, 2014, we completed the acquisition of Stretch, Inc. ("Stretch"), a provider of software configurable processors supporting the video surveillance market. Stretch's results of operations and estimated fair value of assets acquired and liabilities assumed were included in our consolidated financial statements beginning January 14, 2014.

On July 5, 2013 we completed the acquisition of Cadeka, a provider of high precision analog ICs for use in industrial and high reliability applications. Cadeka's results of operations and estimated fair value of assets acquired and liabilities assumed were included in our consolidated financial statements beginning July 5, 2013.

On March 22, 2013, we completed the acquisition of substantially all of the assets of Altior Inc. ("Altior"), a developer of data management solutions in Eatontown, New Jersey. Altior's results of operations and estimated fair value of assets acquired and liabilities assumed were included in our consolidated financial statements beginning March 23, 2013.

**Employees**

As of March 29, 2015, we employed 327 full-time employees, with 158 in research and development, 31 in operations, 96 in marketing and sales and 42 in administration. Of the 327 employees, 130 are located in our international offices. See *Part I, Item 1A—"Risk Factors—'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'.* " None of our employees are represented by a collective bargaining agreement and we have never experienced a work stoppage due to labor issues.

**Available Information**

We file electronically with the Securities and Exchange Commission ("SEC") our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those Reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended. Those Reports and statements: (1) may be read and copied at the SEC's public reference room at 100 F Street, N.E., Washington, DC 20549; (2) are available at the SEC's Internet site (http://www.sec.gov), which contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC; and (3) are available free of charge through our website (www.exar.com) as soon as reasonably practicable after electronic filing with, or furnishing to, the SEC. Information regarding the operation of the SEC's public reference room may be obtained by calling the SEC at 1-800-SEC-0330. Copies of such documents may be requested by contacting our Investor Relations Department at (510) 668-7201 or by sending an e-mail through the Investor Relations page on our website. Information on our website is not incorporated by reference into this Annual Report.

**Executive Officers of the Registrant**

Our executive officers and their ages as of May 29, 2015, are as follows:

| Name | Age | Position |
|---|---|---|
| Louis DiNardo | 55 | President, Chief Executive Officer and Director |
| Ryan A. Benton | 44 | Senior Vice President and Chief Financial Officer |
| Shuen Chang | 62 | President, Display and Lighting Products |
| Diane Hill | 58 | Vice President, Human Resources |
| Dan Wark | 59 | Vice President, Worldwide Operations |
| James Lougheed | 37 | Vice President, Component Products |
| Jessica Wu | 31 | Legal Counsel, Corporate Secretary |

**Louis DiNardo** was appointed President, Chief Executive Officer and Director as of January 3, 2012. Prior to joining us, he was a Partner at Crosslink Capital, a stage-independent venture capital and growth equity firm based in San Francisco, which he joined in January of 2008, and focused on semiconductor and alternative energy technology investment in private companies. Mr. DiNardo was a partner at VantagePoint Venture Partners from January of 2007 through January of 2008. Mr. DiNardo was President and Chief Operating Officer at Intersil Corporation from January 2006 through October 2006 and prior to his promotion, Mr. DiNardo held the position of Executive Vice President of the Power Management Business. He held the position of President and CEO as well as Co-Chairman of the Board of Directors at Xicor Corporation ("Xicor"), a public company, from 2000 until Intersil acquired the company in July of 2004. Mr. DiNardo spent thirteen years at Linear Technology where he was Vice President of Worldwide Marketing and General Manager of the Mixed-Signal Business Unit. He began his career in the semiconductor industry at Analog Devices Incorporated where he served for eight years in a variety of technical and management roles. Mr. DiNardo holds a B.A. from Ursinus College, 1981. Mr. DiNardo has held executive leadership positions with and served on the Board of Directors of a variety of privately held and public technology companies.

**Ryan A. Benton** was appointed Senior Vice President and Chief Financial Officer in December of 2012. Prior to joining the Company, Mr. Benton was Chief Financial Officer of SynapSense located in Folsom, California, a private venture backed company serving the Data Center Infrastructure Management market. Prior to SynapSense, from February 2007 until May 2012, Mr. Benton was Chief Financial Officer of SoloPower Inc., a manufacturer of thin-film solar cells and flexible solar modules, located in San Jose, California. From November 2004 until February 2007, Mr. Benton served as a financial consultant for the United States subsidiary of ASM International NV in Phoenix, Arizona, a semiconductor capital equipment company, where he supported acquisitions and integration process. He also served as Chief Financial Officer for PB Unlimited, an advertising specialty manufacturer located in the Dallas-Fort Worth area, from April 2002 through November 2004. Mr. Benton served as corporate controller for eFunds, which was a public company located in Scottsdale, Arizona that provides information technology solutions for the financial service industry, where he was employed from September 2000 until March 2002. Mr. Benton received his B.A. from the University of Texas.

**Shuen Chang** was appointed president, display and lighting products in August of 2014 following the acquisition of Integrated Memory Logic Limited ("iML"), where he had served as president and CEO since 2011. Mr. Chang also served as a board member and held executive management and CTO positions at iML. Mr. Chang brings over 30 years of analog mixed-signal experience in the semiconductor market with expertise in the semiconductor memory, ASIC, optical disk drive, LED lighting, and high voltage analog and PMIC for TFT LCD display applications. Prior to iML, he was director of engineering at Samsung Semiconductor Inc. in San Jose. Mr. Chang joined Texas Instruments as a research and development engineer in 1981. Mr. Chang holds a BS in electrical engineering from Tatung Institute of Technology, Taipei, Taiwan, and an M.S.E.E. from Arizona State University.

**Diane Hill** was appointed Vice President, Human Resources in April of 2010. With over 30 years of human resources experience, including 20 in the semiconductor industry, Ms. Hill is responsible for developing and implementing all global and regional human resources policies and programs at Exar. Since joining us in September 2000, Ms. Hill has held various senior Human Resources positions prior to her current role, including Division Vice President, Director and Senior Manager. Previously, Ms. Hill held various management positions at Daisy Systems Corporation, a manufacturer of computer hardware and EDA, from October 1987 to April 1990 and Teledyne MEC, a subsidiary of Teledyne Technologies, Inc., from August 1979 to October 1987. Ms. Hill holds a BA in Psychology from the University of California at Santa Barbara.

**Dan Wark** was appointed Vice President, Worldwide Operations in December 2014 after serving as Exar's Division Vice President of Supply Chain Management since April 2012. Mr. Wark's experience in manufacturing spans over 35 years. During the 12 years immediately prior to joining Exar, he held the position of Vice President of Operations for both Amalfi Semiconductor Inc. and Volterra Semiconductor Corporation. His career also includes various management positions at Pericom Semiconductor Corporation, Linear Technology Corporation, National Semiconductor Corporation and Avantek. Mr. Wark is currently Chairman of the GSA Supply Chain Committee and holds a bachelor's degree in Business Administration from San Jose State University.

**James Lougheed** was appointed vice president for component products in December 2014. Mr. Lougheed joined Exar in April 2008 as vice president and managing director for Asia Pacific and held the position of vice president for power management and analog mixed signal products from January 2012 to December 2014. Mr. Lougheed brings over 20 years of experience in the technology industry from end systems, component distribution and semiconductor marketing. Prior to Exar, he was director of marketing and business development at Cirrus Logic. He also held positions as director of marketing at Apexone Microelectronics and senior technical sales director at Future Electronics. Mr. Lougheed has a degree in electronics engineering and a master's in business administration from the University of Southern Queensland, Australia.

**Jessica Wu** was appointed legal counsel in August of 2014 following the acquisition of Integrated Memory Logic Limited ("iML"), where she had served as corporate counsel and secretary since 2011. She was appointed as corporate secretary of the Company in February 2015. Ms. Wu has experience with Taiwan companies and helping them maintain their public status and experience in the semiconductor industry. Prior to iML, she worked at Thoits, Love, Hershberger and McLean, Kirkland & Ellis LLP, and clerked for the Judge McAdams at the Sixth District Federal Court of Appeals. Ms. Wu holds a JD from Santa Clara School of Law and a BA from University of California, Berkeley.

## ITEM 1A. RISK FACTORS

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

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

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

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

- the announcement or introduction of products by our existing competitors or new competitors;
- loss of market share by us or by our customers;
- competitive pressures on selling prices or product availability;
- pressures on selling prices overseas due to foreign currency exchange fluctuations;
- erosion of average selling prices coupled with the inability to sell newer products with higher average selling prices, resulting in lower overall revenue and margins;
- delays in product releases;
- market and/or customer acceptance of our products;
- consolidation among our competitors, our customers and/or our customers' customers;
- changes in our customers' end user concentration or requirements;
- loss of one or more major customers;
- significant changes in ordering pattern by major customers;
- our or our channel partners' or logistic providers' ability to maintain and manage appropriate inventory levels;
- the availability and cost of materials, services or processing capabilities, including foundry, assembly and test capacity, needed 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 products or manufacturing processes to or between our subcontractors;
- fluctuations in the product quality or manufacturing output, yields, and capacity of our suppliers;
- fluctuation in suppliers' capacity due to reorganization, relocation or shift in business focus, financial constraints, or other reasons;
- problems, costs, or delays that we may face in shifting our products to smaller geometry process technologies and in achieving higher levels of design and device integration;
- our ability to successfully introduce and transfer into production new products and/or integrate new technologies;
- excess inventory levels or unanticipated inventory write-downs if expected orders fail to materialize or inventory becomes obsolete;
- increased manufacturing costs;
- higher mask tooling costs associated with advanced technologies;
- the amount and timing of our investment in research and development;
- costs and business disruptions associated with stockholder or regulatory issues;
- the timing and amount of employer payroll tax to be paid on our employees' gains on exercise of stock options;
- an inability to generate profits to utilize net operating losses ("NOLs") prior to their statutory expiration;

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

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

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

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

Because our customers, suppliers and other business partners are in many countries around the world, we must monitor general global conditions for impact on our business. Economies throughout global regions continue to be volatile and, in many countries, inconsistent with trends in the U.S. or other stable economies. Unstable political conditions in individual countries or across regions can also impact our business.

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

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

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

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

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

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

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

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

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

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

- changing or disruptive technologies;

- evolving and competing industry standards;

- changing customer requirements;

- increasing price pressure from lower priced solutions;

- increasing product development costs;

- finite market windows for product introductions;

- design-to-production cycles;

- increasing functional integration;

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

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

- rapid adjustments in customer demand and inventory;

- moderate to slow growth;

- frequent product introductions and enhancements; and/or

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

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

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

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

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

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

Sales to Future, Arrow and WT Microelectronics, and certain iML distributors are made under agreements that provide protection against price reduction for their inventory of our products. As such, we could be exposed to significant liability if the inventory value of the products held by Future and Arrow declined dramatically. In addition, if they were to defer or cancel orders, our revenues would decline and this would materially and adversely impact our business, financial condition and results of operations.

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

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

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

Additional risks involved with acquisitions include:

- exposure to foreign exchange risk associated with acquisition consideration denominated in foreign currencies;
- difficulties in integrating and managing various functional areas such as sales, engineering, marketing, and operations;
- difficulties in incorporating or leveraging acquired technologies and intellectual property rights in new products;
- difficulties or delays in the transfer of product manufacturing flows and supply chains of acquired businesses;
- failure to retain and integrate key personnel;
- failure to retain and maintain relationships with existing customers, distributors, channel partners and other parties;
- failure to manage and operate multiple geographic locations both effectively and efficiently;
- failure to coordinate research and development activities to enhance and develop new products and services in a timely manner that optimize the assets and resources of the combined company;
- difficulties in creating uniform standards, controls (including internal control over financial reporting), procedures, policies and information systems;
- unexpected capital equipment outlays and continuing expenses related to technical and operational integration;
- difficulties in entering markets or retaining current markets in which we have limited or no direct prior experience or where competitors in such markets may have stronger market positions;
- insufficient revenues to offset increased expenses associated with acquisitions;
- under-performance problems with an acquired company;
- issuance of common stock that would dilute our current stockholders' percentage ownership;
- reduction in liquidity and interest income on lower cash balances;
- recording of goodwill and intangible assets that will be subject to periodic impairment testing and potential impairment charges against our future earnings;
- incurring amortization expenses related to certain intangible assets; and/or
- incurring large and immediate write-offs of assets.

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

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

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

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

Exar has recorded material write-downs of the acquired technologies in fiscal year 2015 and 2014 associated with restructurings and annual impairment reviews. *See Note 9 – "Goodwill and Intangible Assets".*

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

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

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

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

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

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

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

- a manufacturing disruption or reduction or elimination of any existing source(s) of semiconductor manufacturing materials or processes, which might include the potential temporary or permanent closure, product and /or process discontinuation, change of ownership, change in business conditions or relationships, change of management or consolidation by one of our foundries;

- disruption of manufacturing or assembly or test services due to vendor transition, relocation or limited capacity of the foundries or subcontractors;
- inability to obtain, develop or ensure the continuation of technologies needed to manufacture our products;
- extended time required to identify, qualify and transfer to alternative manufacturing sources for existing or new products or the possible inability to obtain an adequate alternative;
- failure of our foundries or subcontractors to obtain raw materials and equipment;
- increasing cost of commodities, such as gold, raw materials and energy resulting in higher wafer or package costs;
- long-term financial and operating stability of the foundries or their suppliers or subcontractors and their ability to invest in new capabilities and expand capacity to meet increasing demand, to remain solvent or to obtain financing in tight credit markets;
- continuing measures taken by our suppliers such as reductions in force, pay reductions, forced time off or shut down of production for extended periods of time to reduce and/or control operating expenses in response to weakened customer demand;
- subcontractors' inability to transition to smaller package types or new package compositions;
- a sudden, sharp increase in demand for semiconductor devices, which could strain the foundries' or subcontractors' manufacturing resources and cause delays in manufacturing and shipment of our products;
- manufacturing quality control or process control issues, including reduced control over manufacturing yields, production schedules and product quality;
- potential misappropriation of our intellectual property;
- disruption of transportation to and from Asia where most of our foundries and subcontractors are located;
- political, civil, labor or economic instability;
- embargoes or other regulatory limitations affecting the availability of raw materials or equipment, or changes in tax laws, tariffs, services and freight rates; and/or
- compliance with U.S., local or international regulatory requirements.

Other additional risks associated with subcontractors include:

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

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

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

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

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

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

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

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

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

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

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

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

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

Stock-based awards are critical to our ability to recruit, retain and motivate highly skilled talent. In making employment decisions, particularly in the semiconductor industry and the geographies where our employees are located, a key consideration of current and potential employees is the value of the equity awards they receive in connection with their employment. If we are unable to offer employment packages with a competitive equity award component, our ability to attract highly skilled employees would be harmed. In addition, volatility in our stock price could result in a stock option's exercise price exceeding the market value of our common stock or a deterioration in the value of restricted stock units granted, thus lessening the effectiveness of stock-based awards for retaining and motivating employees. Similarly, decreases in the number of unvested in-the-money stock options held by existing employees, whether because our stock price has declined, options have vested, or because the size of follow-on option grants has decreased, may make it more difficult to retain and motivate employees. We have gained stockholder approval for our 2014 Equity Plan and this will help in our future retention plans. However, we may not always successfully attract and retain key employees, which could have an adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

***Our stock price is volatile.***

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

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

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

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

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

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

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

***Based upon most recent filings available as of March 29, 2015, affiliates of Future, Alonim Investments Inc. and two of its affiliates (collectively "Alonim"), beneficially own approximately 16% of our common stock. This substantial ownership positions provide the opportunity for Alonim to significantly influence matters requiring stockholder approval, which may or may not be in our best interests or the interest of our other stockholders. In addition, Alonim is an affiliate of Future and an executive officer of Future is on our board of directors, which could lead to actual or perceived influence from Future.***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- the jurisdictions in which profits are determined to be earned and taxed;
- the resolution of issues arising from tax audits with various tax authorities;
- changes in the valuation of our deferred tax assets and liabilities;
- adjustments to estimated taxes upon finalization of various tax returns;

- increases in expenses not deductible for tax purposes, including write-offs of acquired in-process research and development and impairment of goodwill in connection with acquisitions;
- changes in available tax credits;
- changes in stock-based compensation expense;
- changes in tax laws or the interpretation of such tax laws and changes in generally accepted accounting principles; and/or
- the repatriation of non-U.S. earnings for which we have not previously provided for U.S. taxes.

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

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

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

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

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

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

***We may be exposed to additional credit risk as a result of concentrated customer revenue.***

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

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

In August 2012, the U.S. Securities and Exchange Commission ("SEC") issued final rules for compliance with Section 1502 of the Dodd-Frank Act, and outlined what U.S. publicly-traded companies have to disclose regarding their use of conflict minerals in their products. According to the rule, companies that utilize any of the 3TG (tin, tantalum, tungsten and gold) and other listed minerals in their products need to conduct a reasonable country of origin inquiry to determine if the minerals are coming from the conflict zones in and around the Democratic Republic of Congo. We filed our first report on June 2, 2014. The implementation of these new regulations may limit the sourcing and availability of some metals used in the manufacture of our products and may affect our ability to obtain products in sufficient quantities or at competitive prices. Our customers, including our OEM customers, may require that our products contain only conflict free 3TG, and our revenues and margins may be harmed if we are unable to meet this requirement at a reasonable price, or at all, or are unable to pass through any increased costs associated with meeting this requirement. Additionally, we may suffer reputational harm with our customers and other stakeholders if our products are not conflict free or if we are unable to sufficiently verify the origins of the 3TG contained in our products through the due diligence procedures that we implement. We could incur significant costs to the extent that we are required to make changes to products, processes or sources of supply due to the foregoing requirements or pressures.

## ITEM 1B.UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

Our executive offices and our marketing and sales, research and development, test and engineering operations are located in Fremont, California in two adjacent buildings that we own, which consist of approximately 151,000 square feet. Additionally, we own approximately 4.5 acres of partially developed property adjacent to our headquarters.

We also lease smaller facilities in Canada, China, South Korea, Malaysia, Taiwan and the United States, which are occupied by administrative offices, sales offices, design centers and FAEs.

Based upon our estimates of future hiring and planned expansion including future acquisitions we believe that our current facilities will be adequate to meet our requirements at least through the next fiscal year.

## ITEM 3. LEGAL PROCEEDINGS

Information required by this item is set forth in *Part II, Item 8—"Financial Statements and Supplementary Data"* and *"Notes to Consolidated Financial Statements, Note 17—Legal Proceedings*" of this Annual Report.

## ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

**Market Information**

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

The following table set forth the range of high and low sales prices of our common stock for the periods indicated, as reported by NASDAQ (prior to July 29, 2013) and NYSE (from July 29, 2013 onwards).

| | Common Stock Price | |
|---|---|---|
| | High | Low |
| **Fiscal year 2015** | | |
| Fourth quarter ended March 29, 2015 | $ 11.03 | $ 8.79 |
| Third quarter ended December 28, 2014 | 10.42 | 8.25 |
| Second quarter ended September 28, 2014 | 11.55 | 8.72 |
| First quarter ended June 29, 2014 | 12.31 | 9.70 |
| **Fiscal year 2014** | | |
| Fourth quarter ended March 30, 2014 | $ 12.55 | $ 10.67 |
| Third quarter ended December 29, 2013 | 13.74 | 11.38 |
| Second quarter ended September 29, 2013 | 13.85 | 10.80 |
| First quarter ended June 30, 2013 | 11.72 | 10.00 |

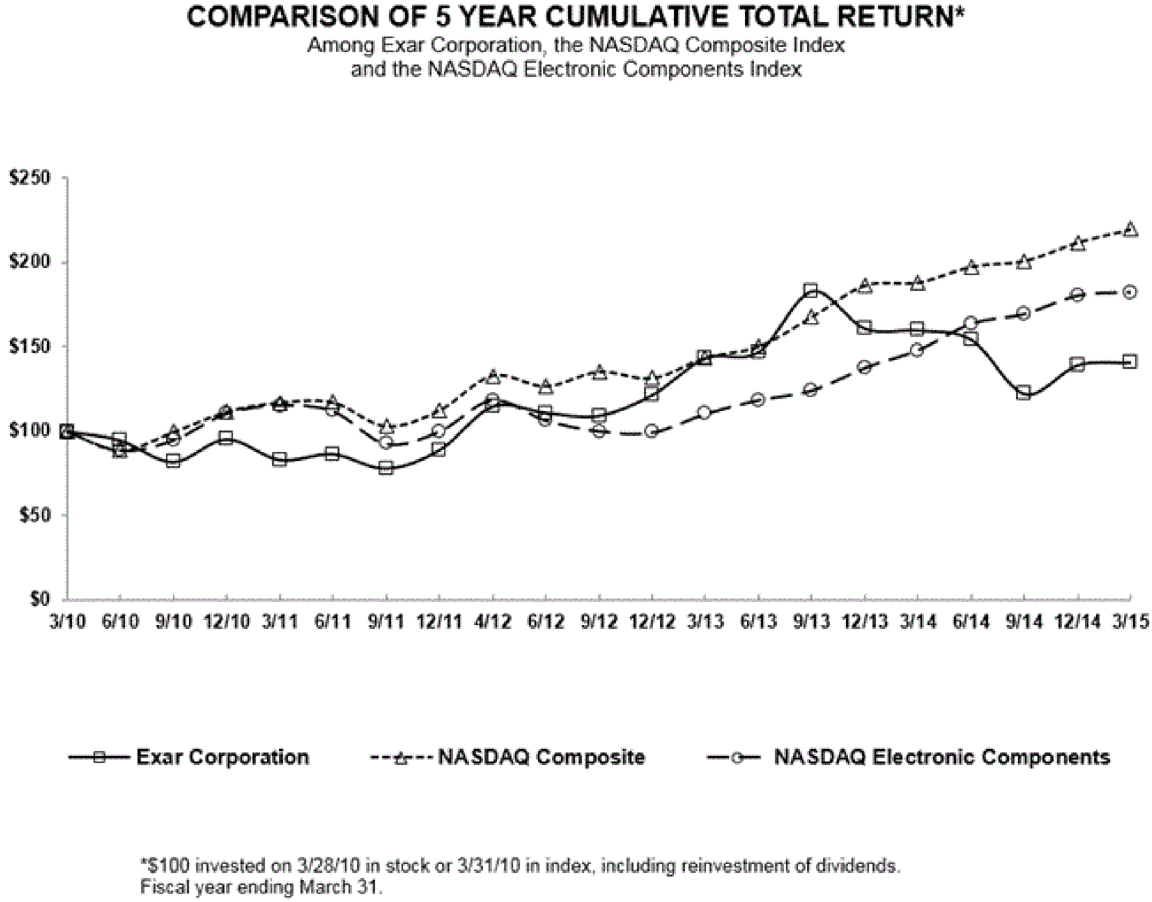
The closing sales price for our common stock on June 2, 2015, was $10.68 per share. As of June 2, 2015, the approximate number of record holders of our common stock was 276 (not including beneficial owners of stock held in street name).

**Dividend Policy**

We have never declared or paid any cash dividends on our capital stock and we do not currently intend to pay any cash dividends on our common stock for the foreseeable future. We expect to retain future earnings, if any, to fund the development and growth of our business. Any future determination to pay dividends on our common stock will be, subject to applicable law, at the discretion of our board of directors and will depend upon, among other factors, our results of operations, financial condition, capital requirements and contractual restrictions.

**Stock Price Performance (1)**

The following table and graph shows a five-year comparison of cumulative total stockholder returns for Exar, The NASDAQ Composite Index (prior to July 29, 2013), The NASDAQ Electronic Components Index (SIC code 3670-3679) (prior to July 29, 2013), the NYSE Composite Index (from July 29, 2013 onwards following the listing of our common stock on the NYSE) and the NYSE Electronic Components Index (from July 29, 2014 onwards following the listing of our common stock on the NYSE). The table and graph assumed the investment of $100 in our common stock and these indices at market close on March 28, 2010 and that all dividends, if any, were reinvested. The performance shown is not necessarily indicative of future performance.




| | Cumulative Total Return as of | | | | | |
|---|---|---|---|---|---|---|
| | March 28, 2010 | March 27, 2011 | April 1, 2012 | March 31, 2013 | March 30, 2014 | March 29, 2015 |
| Exar Corporation Stock | $ 100.00 | $ 83.06 | $ 114.75 | $ 143.44 | $ 159.97 | $ 140.71 |
| NASDAQ/NYSE Composite Index | 100.00 | 116.88 | 132.91 | 143.55 | 188.17 | 219.78 |
| NASDAQ/NYSE Electronic Components Index | 100.00 | 115.32 | 118.45 | 110.39 | 147.99 | 182.03 |

(1) This graph and data are not “soliciting material,” are not deemed “filed” with the SEC and are not to be incorporated by reference in any filing of Exar Corporation under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, unless specifically and expressly incorporated by reference, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

**Purchases of Equity Securities by the Issuer**

Stock repurchase activities during fiscal year 2015 were as follows (in thousands, except per share amounts):

| | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Programs | Dollar Value of Shares That May Yet Be Purchased Under the Programs (in thousands) |
|---|---|---|---|---|
| As of March 30, 2014 | 10,319 | $ 9.42 | 10,319 | $ 52,811 |
| March 31 to June 29, 2014 | 273 | 10.98 | 273 | |
| June 30 to September 28, 2014 | 393 | 9.83 | 393 | |
| September 29 to December 28, 2014 | 125 | 9.08 | 125 | |
| As of March 29, 2015 | 11,110 | $ 9.47 | 11,110 | $ 44,812 |

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(1) On August 28, 2007, we announced the approval of a share repurchase plan under which we were authorized to repurchase up to $100.0 million of our common stock. On July 9, 2013, we announced the approval of a share repurchase program under which we were authorized to repurchase an additional $50.0 million of our common stock. There are no expiration dates under the programs. Shares are retired upon repurchase.

## ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data for the five-year period ended March 29, 2015 should be read in conjunction with our consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Items 7 and 8 of this Form 10-K. Our consolidated statements of operations data for each of the years in the three-year period ended March 29, 2015, and the balance sheet data as of March 29, 2015 and March 30, 2014 are derived from our audited consolidated financial statements, included in Item 8 of this Form 10-K. The statement of operations data for the years ended April 1, 2012 and March 27, 2011 and balance sheet data as of March 31, 2013, April 1, 2012 and March 27, 2011 have been derived from our audited consolidated financial statements in such prior year's respective Form 10-K (in the tables below all amounts are in thousands, except per share data).

| | As of and For the Years Ended | | | | |
|---|---|---|---|---|---|
| | March 29, 2015 | March 30, 2014 | March 31, 2013 | April 1, 2012 | March 27, 2011 |
| **Consolidated statements of operations data:** | | | | | |
| Net sales | $ 162,050 | $ 125,322 | $ 122,026 | $ 130,566 | $ 146,005 |
| Gross profit | 49,926 | 50,654 | 55,687 | 55,924 | 63,997 |
| Loss from operations | (43,063) | (3,701) | (583) | (30,593) | (40,018) |
| Net income (loss) | (45,007) | 5,801 | 2,882 | (28,056) | (35,668) |
| Net income (loss) attributable to Exar Corporation | (44,970) | 5,801 | 2,882 | (28,056) | (35,668) |
| | | | | | |
| **Net income (loss) per share** to common stockholders**:** | | | | | |
| Basic | $ (0.95) | $ 0.12 | $ 0.06 | $ (0.63) | $ (0.81) |
| Diluted | $ (0.95) | $ 0.12 | $ 0.06 | $ (0.63) | $ (0.81) |
| | | | | | |
| **Shares used in computation of net income (loss) per share:** | | | | | |
| Basic | 47,253 | 47,291 | 45,809 | 44,796 | 44,218 |
| Diluted | 47,253 | 48,823 | 46,476 | 44,796 | 44,218 |
| | | | | | |
| **Consolidated balance sheets data:** | | | | | |
| Cash, cash equivalents and short-term investments | $ 55,233 | $ 167,034 | $ 205,305 | $ 196,382 | $ 200,999 |
| Working capital | 67,406 | 175,751 | 203,732 | 190,878 | 202,256 |
| Total assets | 283,100 | 302,217 | 293,168 | 271,652 | 298,215 |
| Long-term obligations | 9,462 | 6,696 | 12,546 | 9,986 | 16,399 |
| Accumulated deficit | (298,637) | (253,667) | (259,468) | (262,350) | (234,294) |
| Stockholders' equity | 222,832 | 253,375 | 240,454 | 223,292 | 244,579 |

On June 3, 2014, January 14, 2014, July 5, 2013 and March 22, 2013 we acquired the businesses of iML, Stretch, Cadeka, and Altior, respectively. Accordingly, the results of operations of iML, Stretch, Cadeka and Altior have been included in our consolidated financial statements since June 4, 2014, January 14, 2014, July 5, 2013 and March 23, 2013, respectively. See *Part II, Item 8—"Financial Statements and Supplementary Data"* and *"Notes to Consolidated Financial Statements, Note 3—Business Combinations."*

## ITEM 7. 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 "Risk Factors" above and elsewhere in this Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are generally written in the future tense and/or may generally be identified by words such as "will," "may," "should," "would," "could," "expect," "suggest, "possible," "potential," "target," "commit," "continue," "believe," "anticipate," "intend," "project," "projected," "positioned," "plan," or other similar words. Forward-looking statements contained in this Annual Report include, among others, statements made in Part II, Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Fourth Quarter of Fiscal Year 2015 Executive Summary" and elsewhere regarding: (1) our future strategies and target market; (2) our future revenues, gross profits and margins; (3) our future research and development ("R&D") efforts and related expenses; (4) our future selling, general and administrative expenses ("SG&A"); (5) our cash and cash equivalents, short-term marketable securities and cash flows from operations being sufficient to satisfy working capital requirements and capital equipment needs for at least the next 12 months; (6) our ability to continue to finance operations with cash flows from operations, existing cash and investment balances, and some combination of long-term debt and/or lease financing and sales of equity securities; (7) the possibility of future acquisitions and investments; (8) our ability to accurately estimate our assumptions used in valuing stock-based compensation; (9) our ability to estimate and reconcile distributors' reported inventories to their activities; (10) our ability to estimate future cash flows associated with long-lived assets; and (11) the volatile global economic and financial market conditions. Actual results may differ materially from those projected in the forward-looking statements as a result of various factors, including, among others, those identified above under Part I, Item 1A—"Risk Factors." You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document. We disclaim any obligation to revise or update information in any forward-looking statement, except as required by law.*

### Company Overview

Exar Corporation ("Exar," "us," "our" or "we") designs, develops and markets high performance analog mixed-signal integrated circuits ("ICs") and advanced sub-system solutions for the Industrial and Embedded Systems, High-End Consumer and Infrastructure markets. Our comprehensive knowledge of end-user markets along with the underlying analog, mixed signal and digital technology has enabled us to provide innovative solutions designed to meet the needs of the evolving connected world. Applying both analog and digital technologies, our products are deployed in a wide array of applications such as industrial, instrumentation and medical equipment, networking and telecommunication systems, servers, enterprise storage systems, flat panel displays, LED lighting solutions, set top boxes and digital video recorders. We provide customers with a breadth of component products and sub-system solutions based on advanced silicon integration. Exar's product portfolio includes Connectivity, Power Management, High Performance Analog, Processors, Flat Panel Display and LED lighting.

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

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

**Fourth Quarter of Fiscal Year 2015 Executive Summary**

Our fourth quarter net sales decreased slightly by 1.0% as compared to the third fiscal quarter of 2015. The decrease was primarily due to an expected decrease in our processor sales, which had strong third quarter sales and the display product line performance was also down slightly due to market seasonality. These decreases were offset in part by growth in LED lighting products and higher power product sales. Net loss of $2.9 million decreased $3.7 million from net loss of $6.6 million in the third quarter of fiscal year 2015. The decrease was primarily attributed to decrease in restructuring charges and overall cost saving across functions. Loss per share of $0.06 in the fourth quarter of fiscal year 2015 decreased $0.08 per share from the loss per share of $0.14 in the third quarter of fiscal year 2015. We believe we are effectively managing our operating expenses while continuing to invest an appropriate amount in research and development projects for future products while investing in the expansion of our sales force.

**Acquisitions**

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

On January 14, 2014, we completed the acquisition of Stretch, Inc. (“Stretch”), a provider of software configurable processors supporting the video surveillance market. Stretch’s results of operations and estimated fair value of assets acquired and liabilities assumed were included in our consolidated financial statements beginning January 14, 2014.

On July 5, 2013, we completed the acquisition of substantially all of the assets of Cadeka Technologies (Cayman) Holding Ltd., a privately held company organized under the laws of the Cayman Islands and all the outstanding stock of the subsidiaries of Cadeka Technologies (Cayman) Holding Ltd., including the equity of its wholly owned subsidiary Cadeka Microcircuits, LLC, a Colorado limited liability company (“Cadeka”). With locations in Loveland, Colorado, Shenzhen and Wuxi, China, Cadeka designs, develops and markets high precision analog integrated circuits for use in industrial and high reliability applications. Cadeka’s results of operations and estimated fair value of assets acquired and liabilities assumed were included in our consolidated financial statements beginning July 5, 2013.

On March 22, 2013, we completed the acquisition of substantially all of the assets of Altior Inc. (“Altior”), a developer of data management solutions in Eatontown, New Jersey. Altior’s results of operations and estimated fair value of assets acquired and liabilities assumed were included in our consolidated financial statements beginning March 23, 2013.

Our fiscal years consist of 52 or 53 weeks. In a 52-week year, each fiscal quarter consists of 13 weeks. Fiscal years 2015, 2014 and 2013 each consisted of 52 weeks. Fiscal years ended March 29, 2015, March 30, 2014 and March 31, 2013 are also referred to as “2015,” “2014,” and “2013,” respectively, unless otherwise indicated.

**Critical Accounting Policies and Estimates**

The preparation of our financial statements and accompanying disclosures in conformity with U.S. generally accepted accounting principles (“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 consolidated financial statements and the accompanying notes. The U.S. Securities and Exchange Commission 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) capitalized mask set tools; (4) income taxes; (5) stock-based compensation; (6) goodwill; (7) long-lived assets; and (8) valuation of business combinations; each of which is addressed below. We also have other key accounting policies that involve the use of estimates, judgments and assumptions that are significant to understanding our results. For additional information, see *Part II, Item 8—“Financial Statements and Supplementary Data” and “Notes to Consolidated Financial Statements, Note 2—Accounting Policies.”* 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.

*Revenue Recognition*

We recognize revenue in accordance with Financial Accounting Standards Board (“FASB”) authoritative guidance for revenue recognition. Four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the price is fixed or determinable; and (4) collectability is reasonably assured.

We derive revenue principally from the sale of our products to distributors and to original equipment manufacturers ("OEMs") or their contract manufacturers. Our delivery terms are primarily free on board shipping point, at which time title and all risks of ownership are transferred to the customer.

To date, software revenue has been an immaterial portion of our net sales.

Non-distributors

For non-distributors, revenue is recognized when title to the product is transferred to the customer, which occurs upon shipment or delivery, depending upon the terms of the customer order, provided that persuasive evidence of a sales arrangement exists, the price is fixed or determinable, collection of the resulting receivables is reasonably assured, there are no customer acceptance requirements and there are no remaining significant obligations. Provisions for returns and allowances for non-distributor customers are provided at the time product sales are recognized. Allowances for sales returns and other reserves are recorded based on historical experience or specific identification of an event necessitating an allowance.

Our history of actual returns from our non-distributors has not been material and, therefore, the allowance for sales returns for non-distributor customers is not significant.

Distributors

Agreements with our primary distributors permit the return of 3% to 6% of their purchases during the preceding quarter for purposes of stock rotation. For one of these distributors, a scrap allowance of 1% of the preceding quarter's purchases is permitted. We also provide discounts to certain distributors based on volume of product they sell or purchase for a period not to exceed one year.

We recognize revenue from each of our distributors using either the sell-in basis or sell-through basis, each as described below. Once adopted, the basis for revenue recognition for a distributor is maintained unless there is a change in circumstances or contractual terms indicating the basis for revenue recognition for that distributor or any particular transaction is no longer appropriate.

- *Sell-in Basis*—Revenue is recognized upon shipment if we conclude we meet the same criteria as for non-distributors discussed above and we can reasonably estimate the credits for returns, pricing allowances and/or other concessions. We record an estimated allowance, at the time of shipment, based upon historical patterns of returns, pricing allowances and other concessions (i.e., "sell-in" basis).

- *Sell-through Basis*—Revenue and the related costs of sales are deferred until the resale to the end customer if we grant more than limited rights of return, pricing allowances and/or other concessions or if we cannot reasonably estimate the level of returns and credits issuable (i.e., "sell-through" basis). Under the sell-through basis, accounts receivable are recognized and inventory is relieved upon shipment to the distributor as title to the inventory is transferred upon shipment, at which point we have a legally enforceable right to collection under normal terms. The associated sales and cost of sales are deferred and are included in deferred income and allowances on sales to distributors in the consolidated balance sheet. When the related product is sold by our distributors to their end customers, at which time the ultimate price we receive is known, we recognize previously deferred income as sales and cost of sales.

The following table summarizes the deferred income balance, primarily consisting of sell-through distributors (in thousands):

| | As of March 29, 2015 | As of March 30, 2014 |
|---|---|---|
| Deferred revenue at published list price | $ 15,029 | $ 15,871 |
| Deferred cost of revenue | (4,685) | (4,757) |
| Deferred income | $ 10,344 | $ 11,114 |

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 judgments 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.

*Valuation of Inventories*

Our policy is to establish a provision for excess inventories, based on the nature of the specific product, that is greater than twelve months of forecasted demand unless there are other factors indicating that the inventories will be sold at a profit after such periods. Among other factors, management considers known backlog of orders, projected sales and marketing forecasts, shipment activity, inventory-on-hand at our primary distributors, past and current market conditions, anticipated demand for our products, changing lead times in the manufacturing process and other business conditions when determining if a provision for excess inventory is required. Should the assumptions used by management in estimating the provision for excess inventory differ from actual future demand or should market conditions become less favorable than those projected by management, additional inventory write-downs may be required, which would have a negative impact on our gross margins. See *Part I, Item 1A. "Risk Factors—'Our Financial Results May Fluctuate Significantly Because Of A Number Of Factors, Many Of Which Are Beyond Our Control'*."

*Mask Costs*

We incur costs for the fabrication of masks to manufacture our products. If we determine the product technological feasibility has been achieved when costs are incurred, the costs will be treated as pre-production costs and capitalized as machinery and equipment under property, plant and equipment. The amount will be amortized to cost of sales over the estimated production period of the product. If product technological feasibility has not been achieved or the mask is not expected to be utilized in production manufacturing, the related mask costs are expensed to R&D when incurred. Total mask costs capitalized was $0.3 million and $2.3 million as of March 29, 2015 and March 30, 2014, respectively. The capitalized costs are amortized over a five year estimated life. We periodically assess capitalized mask costs for impairment. During fiscal year 2015, we completed a significant strategic restructuring process. This restructuring was prompted by the recent acquisition of iML, and an associated significant reduction in force, including reductions at our Hangzhou, China and Loveland, Colorado units. As a result of this restructuring, the mask costs were impaired and we recorded $2.0 million of impairment charges to write off these mask costs.

*Income Taxes*

We determine our deferred tax assets and liabilities based upon the difference between the financial statement and tax bases of our assets and liabilities. We make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of certain deferred tax assets and liabilities, which arise from timing differences in the recognition of revenue and expense for tax and financial statement purposes. Such deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax base, operating losses and tax credit carryforwards. Changes in tax rates affect the deferred income tax assets and liabilities and are recognized in the period in which the tax rates or benefits are enacted.

We must determine the probability that we will be able to utilize our deferred tax assets. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized. We measure and recognize uncertain tax positions in accordance with GAAP, whereby we only recognize the tax benefit from an uncertain tax position if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the merits of the position. See *Part II, Item 8—"Financial Statements and Supplementary Data"* and *"Notes to Consolidated Financial Statements, Note 18—Income Taxes"* for more details about our deferred tax assets and liabilities.

*Stock-Based Compensation*

We measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. We use the Black-Scholes model to estimate the fair value of our options. The fair value of time-based and performance-based restricted stock units is based on the grant date share price. The fair value of market-based restricted stock units and options is estimated using a Monte Carlo simulation model. See *Part II, Item 8—"Financial Statements and Supplementary Data"* and *"Notes to the Consolidated Financial Statements, Note 14—Stock-Based Compensation*" for more details about our assumptions used in calculating the stock-based compensation expenses and equity related transactions during the fiscal year.

We recognize compensation expense equal to the grant-date fair value for all share-based payment awards that are expected to vest. This expense is recorded on a straight-line basis over the requisite service period of the entire awards, unless the awards are subject to performance or market conditions, in which case we recognize compensation expense over the requisite service period of each separate vesting tranche. For the performance-based awards, we recognize compensation expense when it becomes probable that the performance criteria specified in the plan will be achieved. For the market-based awards, compensation expense is not reversed if the market condition is not satisfied. The amount of stock-based compensation that we recognize is also based on an expected forfeiture rate. If there is a difference between the forfeiture assumptions used in determining stock-based compensation costs and the actual forfeitures which become known over time, we may change the forfeiture rate, which could have a significant impact on our results of operations.

*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. The fair value of the reporting unit is estimated using a combination of the income approach that uses discounted cash flows and the market approach that utilizes comparable companies' data. 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.

*Long-Lived Assets*

We review long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets (or asset group) may not be fully recoverable. Whenever events or changes in circumstances suggest that the carrying amount of long-lived assets may not be recoverable, we estimate the future cash flows expected to be generated by the assets (or asset group) from its use or eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of those assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets. Significant management judgment is required in the grouping of long-lived assets and forecasts of future operating results that are used in the discounted cash flow method of valuation. If our actual results or the plans and estimates used in future impairment analyses are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges.

When we determine that the useful lives of assets are shorter than we had originally estimated, we accelerate the rate of depreciation and/or amortization over the assets' new, shorter useful lives. See "*Goodwill and Other Intangible Asset Impairment"* in the *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* below for more details regarding charges associated with the shortening of useful lives of certain intangible assets.

*Valuation of Business Combinations*

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

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

Assets acquired and liabilities assumed and/or incurred 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 non-controlling interest we have in the acquiree. To the contrary, if the acquisition date fair value of identifiable assets acquired, the liabilities assumed, and any non-controlling interest we have 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 until its useful life is determined to be no longer indefinite. 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 asset 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 in the period when such decision is made.

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

**Results of Operations**

On March 22, 2013, July 5, 2013, January 14, 2014 and June 3, 2014 we acquired Altior, Cadeka, Stretch and iML respectively. Accordingly, results of Altior, Cadeka, Stretch and iML's operations have been included in our consolidated financial statements since respective acquisition dates.

The following table sets forth our financial results as a percentage of total net sales:

| | Fiscal Years Ended | | |
|---|---|---|---|
| | **March 29, 2015** | **March 30, 2014** | **March 31, 2013** |
| *Sales:* | | | |
| Net sales | 78% | 71% | 70% |
| Net sales, related party | 22% | 29% | 30% |
| **Total net sales** | 100% | 100% | 100% |
| *Cost of sales:* | | | |
| Cost of sales | 44% | 38% | 38% |
| Cost of sales-related party | 9% | 13% | 14% |
| Amortization of purchased intangible assets and inventory step-up | 7% | 6% | 3% |
| Warranty Reserve | (1)% | 1% | — |
| Impairment of intangible assets | 5% | 1% | — |
| Restructuring charges and exit costs | 5% | *% | *% |
| **Total cost of sales** | 69% | 60% | 54% |
| **Gross profit** | 31% | 40% | 46% |
| *Operating expenses:* | | | |
| Research and development | 23% | 22% | 18% |
| Selling, general and administrative | 27% | 26% | 27% |
| Impairment of Intangibles | 3% | — | — |
| Restructuring charges and exit costs | 3% | 2% | 1% |
| Merger and acquisition costs | 5% | 2% | *% |
| Net change in fair value of contingent consideration | (3)% | (8)% | — |
| **Total operating expenses** | 57% | 43% | 46% |
| **Loss from operations** | (27)% | (3)% | *% |
| Interest income and other, net | *% | 1% | 2% |
| Interest expense | (1)% | *% | *% |
| Impairment of long term investment | *% | *% | — |
| **Income (loss) before income taxes** | (27)% | (2)% | 1% |
| Provision for (benefit from) income taxes | 1% | (7)% | (1)% |
| **Net income (loss)** | (28)% | 5% | 2% |
| Less: Net loss attributable to non-controlling interest | *% | — | — |
| **Net income (loss) attributable to Exar Corporation** | (28)% | 5% | 2% |

* Less than 1% for this period

The following table sets forth our financial results in dollars and the increase (decrease) over prior periods for the periods indicated (in thousands, except percentages):

| | Fiscal Years Ended March 29, 2015 | Fiscal Years Ended March 30, 2014 | Change | |
|---|---|---|---|---|
| *Sales:* | | | | |
| Net sales | $ 125,791 | $ 89,595 | $ 36,196 | 40% |
| Net sales, related party | 36,259 | 35,727 | 532 | 1% |
| **Net Sales** | 162,050 | 125,322 | 36,728 | 29% |
| *Cost of sales:* | | | | |
| Cost of sales | 71,139 | 48,067 | 23,072 | 48% |
| Cost of sales-related party | 14,359 | 15,738 | (1,379) | (9)% |
| Amortization of purchased intangible assets and inventory step-up | 11,740 | 7,600 | 4,140 | 54% |
| Impairment of intangible assets | 8,367 | 1,636 | 6,731 | 411% |
| Restructuring charges and exit costs | 7,597 | 187 | 7,410 | 3963% |
| Warranty Reserve | (1,078) | 1,440 | (2,518) | (175)% |
| **Total cost of sales** | 112,124 | 74,668 | 37,456 | 50% |
| **Gross profit** | 49,926 | 50,654 | (728) | (1)% |
| *Operating expenses:* | | | | |
| Research and development | 37,181 | 27,048 | 10,133 | 37% |
| Selling, general and administrative | 43,758 | 33,055 | 10,703 | 32% |
| Merger and acquisition costs | 7,348 | 1,880 | 5,468 | 291% |
| Restructuring charges and exit costs | 4,589 | 2,827 | 1,762 | 62% |
| Impairment of Intangibles | 4,456 | — | 4,456 | 100% |
| Net change in fair value of contingent considerations | (4,343) | (10,455) | 6,112 | (58)% |
| **Total operating expenses** | 92,989 | 54,355 | 38,634 | 71% |
| **Loss from operations** | (43,063) | (3,701) | (39,362) | 1064% |
| Interest income and other, net | 571 | 1,503 | (932) | (62)% |
| Interest expense | (1,082) | (156) | (926) | 594% |
| Impairment of long term investment | (544) | (323) | (221) | 68% |
| **(Loss) before income taxes** | (44,118) | (2,677) | (41,441) | (1548)% |
| Provision for (benefit from) income taxes | 889 | (8,478) | 9,367 | (110)% |
| **Net income (loss)** | $ (45,007) | $ 5,801 | $ (50,808) | (876)% |
| Less: Net loss attributable to non-controlling interest | (37) | — | (37) | 100% |
| **Net income (loss) attributable to Exar Corporation** | (44,970) | 5,801 | (50,771) | (875)% |

| | Fiscal Years Ended March 30, 2014 | Fiscal Years Ended March 31, 2013 | Change | |
|---|---|---|---|---|
| *Sales:* | | | | |
| Net sales | $ 89,595 | $ 85,856 | $ 3,739 | 4% |
| Net sales, related party | 35,727 | 36,170 | (443) | (1)% |
| **Net Sales** | 125,322 | 122,026 | 3,296 | 3% |
| *Cost of sales:* | | | | |
| Cost of sales | 48,067 | 45,943 | 2,124 | 5% |
| Cost of sales-related party | 15,738 | 16,716 | (978) | (6)% |
| Amortization of purchased intangible assets and inventory step-up | 7,600 | 3,379 | 4,221 | 125% |
| Impairment of intangible assets | 1,636 | — | 1,636 | 100% |
| Warranty Reserve | 1,440 | — | 1,440 | 100% |
| Restructuring charges and exit costs | 187 | 301 | (114) | (38)% |
| **Total cost of sales** | 74,668 | 66,339 | 8,329 | 13% |
| **Gross profit** | 50,654 | 55,687 | (5,033) | (9)% |
| *Operating expenses:* | | | | |
| Research and development | 27,048 | 22,376 | 4,672 | 21% |
| Selling, general and administrative | 33,055 | 32,531 | 524 | 2% |
| Restructuring charges and exit costs | 2,827 | 1,253 | 1,574 | 126% |
| Merger and acquisition costs | 1,880 | 110 | 1,770 | 1609% |
| Net change in fair value of contingent considerations | (10,455) | — | (10,455) | 100% |
| **Total operating expenses** | 54,355 | 56,270 | (1,915) | (3)% |
| **Loss from operations** | (3,701) | (583) | (3,118) | 535% |
| Interest income and other, net | 1,503 | 2,441 | (938) | (38)% |
| Interest expense | (156) | (165) | 9 | (5)% |
| Impairment of long term investment | (323) | — | (323) | 100% |
| **Income (Loss) before income taxes** | (2,677) | 1,693 | (4,370) | (258)% |
| Benefit from income taxes | (8,478) | (1,189) | (7,289) | 613% |
| **Net income** | $ 5,801 | $ 2,882 | $ 2,919 | 101% |

**Net Sales by End Market**

The following table shows net sales by end market for the periods indicated (in thousands except percentages):

| | Fiscal Years Ended | | | | | | 2015 vs. 2014 Change | 2014 vs. 2013 Change |
|---|---|---|---|---|---|---|---|---|
| | March 29, 2015 | | March 30, 2014 | | March 31, 2013 | | | |
| Net sales: | | | | | | | | |
| Industrial and Embedded Systems | $ 79,050 | 49% | $ 72,458 | 58% | $ 63,396 | 52% | 9% | 14% |
| High-End Consumer | 51,897 | 32% | 462 | -% | 928 | 1% | 11133% | (50%) |
| Infrastructure | 31,103 | 19% | 52,402 | 42% | 57,702 | 47% | (41%) | (9%) |
| **Total** | $ 162,050 | 100% | $ 125,322 | 100% | $ 122,026 | 100% | | |

Fiscal Year 2015 versus Fiscal Year 2014

Net sales for fiscal year 2015 increased by $36.7 million or 29%, as compared to fiscal year 2014.

By end market, Industrial and Embedded Systems increased $6.6 million (9% increase) to $79.1 million, High-End Consumer increased by $51.4 million (from $0.5 million) to $51.9 million, and Infrastructure decreased $21.3 million (41% decrease) to $31.1 million. The increase of $6.6 million in Industrial and Embedded Systems was primarily attributable to higher sales volume from our new processor products, which was benefited from the acquisition of Stretch in the fourth quarter of fiscal year 2014. Other component product lines contributed higher sales volumes but a reduced average selling price. The $51.4 million increase in High-End Consumer sales was primarily due to the higher sales volume from Flat Panel Display products acquired as part of the iML acquisition in the first quarter of fiscal year 2015. The majority of the decrease in Infrastructure sales of $21.3 million was due to significantly lower demand of our data compression products.

Fiscal Year 2014 versus Fiscal Year 2013

Net sales for fiscal year 2014 increased by $3.3 million, or 3%, as compared to fiscal year 2013. The increase was primarily due to higher sales volume in our Industrial and Embedded Systems products in the Americas region associated with the acquisition of new product lines which was partially offset by the reduction in average selling price in the rest of the end markets in the Asia and EMEA region.

**Net Sales by Geography**

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

| | Fiscal Years Ended | | | | | | 2015 vs. 2014 Change | 2014 vs. 2013 Change |
|---|---|---|---|---|---|---|---|---|
| | March 29, 2015 | | March 30, 2014 | | March 31, 2013 | | | |
| Net sales: | | | | | | | | |
| Asia | $ 118,238 | 73% | $ 71,856 | 57% | $ 72,610 | 60% | 65% | (1%) |
| Americas | 26,262 | 16% | 38,197 | 31% | 32,959 | 27% | (31%) | 16% |
| EMEA | 17,550 | 11% | 15,269 | 12% | 16,457 | 13% | 15% | (7%) |
| **Total** | $ 162,050 | 100% | $ 125,322 | 100% | $ 122,026 | 100% | | |

Fiscal Year 2015 versus Fiscal Year 2014

Net sales for fiscal year 2015 increased by $36.7 million or 29%, as compared to fiscal year 2014.

By geography, Asia increased $46.4 million (65% increase) to $118.2 million, Americas decreased by $11.9 million (31% decrease) to $26.3 million, and EMEA increased $2.3 million (15% increase) to $17.6 million. The $46.4 million increase in Asia sales was primarily due to the higher sales volume from Flat Panel Display products acquired as part of the iML acquisition in the first quarter of fiscal year 2015, offset by other component product lines higher sales volumes but at reduced average selling prices. The decrease of $11.9 million in Americas was primarily attributable to significantly lower demand of our data compression products, offset in part by higher sales volume from our new processor products, which benefited from the acquisition of Stretch in the fourth quarter of fiscal year 2014. The increase in EMEA sales of $2.3 million was primarily attributable to higher sales volume from our new processor products.

Fiscal Year 2014 versus Fiscal Year 2013

Net sales for fiscal year 2014 increased by $3.3 million, or 3%, as compared to fiscal year 2013. The increase was primarily due to higher sales volume in the Americas and Asia regions associated with the acquisition of new product lines which was partially offset by the reduction in average selling price in the rest of the end markets in the EMEA region.

**Gross Profit**

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

- the cost of purchasing finished silicon wafers manufactured by unaffiliated foundries;
- the costs associated with assembly, packaging, test, quality assurance and product yield loss;
- the cost of purchasing finished tested "turnkey" units;
- the cost of personnel and equipment associated with manufacturing;
- the cost of stock-based compensation associated with manufacturing personnel;
- the amortization and impairment of purchased intangible assets and acquired intellectual property;
- the provision for warranty;
- the provision for excess and obsolete inventory; and
- provisions for restructuring charges and exit costs.

We believe that gross profit will fluctuate as a percentage of sales and in absolute dollars due to, among other factors, product, manufacturing costs, our ability to leverage fixed operational costs, shipment volumes, competitive pricing pressure on our products, and currency fluctuations. We reduced employee-related costs through restructuring activities in the fourth quarter of fiscal year 2012 and began to realize the reduction in the underlying costs in fiscal year 2013. We also reduced employee-related costs through restructuring activities in the second and third quarters of fiscal year 2015 and began to realize the reduction in the underlying costs in the fourth quarter of fiscal year 2015.

Fiscal Year 2015 versus Fiscal Year 2014

Gross profit as a percentage of net sales for fiscal year 2015 decreased to 30.8% from 40.4% in fiscal year 2014. The decrease was due to net increased amortization expense of $4.1 million primarily related to Stretch and iML purchased intangible assets, increased impairment charges of intangible asset and related inventory write down of $6.7 million and increased restructuring expenses of $7.4 million.

Fiscal Year 2014 versus Fiscal Year 2013

Gross profit as a percentage of net sales for fiscal year 2014 decreased to 40.4% from 45.6% in fiscal year 2013. The decrease was primarily due to inclusion of amortization expense related to Altior, Cadeka and Stretch purchased intangible assets and impairment charges of intangible and related inventory write down in fiscal year 2014 and unfavorable product mix offset by the successful cost reduction efforts which began in fiscal year 2013.

Stock-based compensation expense recorded in cost of sales was $1.1 million, $0.7 million and $0.5 million for fiscal years 2015, 2014 and 2013, respectively.

**Other Costs and Expenses**

*Research and Development Expenses*

Our R&D expenses 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, expenses related to new mask tool sets, software amortization, test hardware, and engineering supplies and services;
- amortization and impairment of acquired intangible assets such as existing technology and patents/core technology; and
- facilities expenses.

We believe that R&D expenses will fluctuate as a percentage of sales and increase in absolute dollars due to, among other factors, increased investment in new products development, software development, incentives, annual merit and benefits cost increases, profit sharing rate changes and fluctuations in reimbursements under a research and development contract.

We have a contractual agreement under which certain of our R&D costs are eligible for reimbursement. Amounts collected under this arrangement are offset against R&D expenses. During fiscal years 2015, 2014 and 2013, we offset $0.3 million, $1.5 million and $2.0 million of R&D expenses in connection with this agreement, respectively.

Fiscal Year 2015 versus Fiscal Year 2014

R&D expenses for fiscal year 2015 increased $10.1 million, or 37%, as compared to fiscal year 2014. The increase was primarily a result of higher payroll due to merit increase and the inclusion of the acquired Stretch and iML operations and stock compensation expenses.

Fiscal Year 2014 versus Fiscal Year 2013

R&D expenses for fiscal year 2014 increased $4.7 million, or 21%, as compared to fiscal year 2013. The increase was primarily a result of higher payroll and stock compensation expenses due to the inclusion of the acquired Altior, Cadeka and Stretch operations.

*Sales, General and Administrative Expenses*

SG&A expenses consist primarily of:

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

We believe that SG&A expenses will fluctuate as a percentage of sales and in absolute dollars due to, among other factors, variable commissions, legal costs, incentives and annual merit increases. We reduced employee related costs through restructuring activities in the second and third quarters of fiscal year 2015 and began to realize the net cost reduction in the fourth quarter of fiscal year 2015.

Fiscal Year 2015 versus Fiscal Year 2014

SG&A expenses for fiscal year 2015 increased by $10.7 million or 32% as compared with fiscal year 2014. The increase was mainly due to $3.7 million increase in stock compensation expense, $1.9 million increase in amortization of acquired intangible assets related to acquisition of iML operations and a company-wide merit increase.

Fiscal Year 2014 versus Fiscal Year 2013

SG&A expenses for fiscal year 2014 remained consistent with the same period a year ago. The increase due to inclusion of the acquired companies was offset by our cost reduction effort during the year.

*Restructuring Charges and Exit Costs*

Restructuring expenses result from the execution of management approved restructuring plans that were generally developed to improve our cost structure and/or operations, often in conjunction with our acquisition integration strategies. Restructuring expenses consist of employee severance costs and also include contract termination costs to improve our cost structure prospectively. See *Note 7 – "Restructuring Charges and Exit Costs."*

Fiscal Year 2015 versus Fiscal Year 2014

Restructuring charges and exit costs for fiscal year 2015 increased $9.2 million, or 304%, as compared to fiscal year 2014. The charges were mainly due to the strategic restructuring resulting in a reduction of our workforce, $7.8 million impairment of certain intangible and fixed assets and write-off of related inventory. We believe this restructuring allows us to achieve meaningful synergies and operating efficiencies.

Fiscal Year 2014 versus Fiscal Year 2013

Restructuring charges and exit costs for fiscal year 2014 increased $1.5 million, or 94%, as compared to fiscal year 2013. The increase was due to our effort to reduce our operating expenses across all functions.

*Merger and Acquisition Costs*

Merger and acquisition costs for fiscal year 2015 increased $5.5 million, or 291%, as compared to fiscal year 2014. The increase was primarily due to the transaction costs incurred for the acquisition of iML which was finalized in September 2014. In fiscal year 2014, we acquired Cadeka and Stretch. In fiscal year 2013, we acquired Altior. See *Note 3 – "Business Combinations."*

*Net change in Fair Value of Contingent Considerations*

In fiscal year 2015, the fair value of the contingent considerations for Altior and Cadeka were fully released due to significant decreases in revenue projections which resulted in our determination that the probability of revenue target achievement was highly unlikely. See *Note 5 –"Fair Value."*

*Goodwill and Other Intangible Asset Impairment*

Fiscal Year 2015

In the fourth quarter of fiscal year 2015, we conducted our annual goodwill impairment review comparing the fair value of our single reporting unit with its carrying value. As of the test date and as of year-end, and before consideration of a control premium, the fair value, which was estimated as our market capitalization, exceeded the carrying value of our net assets. As a result, no goodwill impairment was recorded for fiscal year 2015.

During fiscal year 2015, Exar completed a significant strategic restructuring process that began in the quarter ended September 28, 2014 and ended in October 2014. This restructuring was prompted by the acquisition of iML, and an associated significant reduction in force, including reductions at our Hangzhou, China; Loveland, Colorado; and Ipoh, Malaysia locations. We believe this restructuring allows us to achieve meaningful synergies and operating efficiencies and focus our resources on strategic priorities that we expect will yield the highest incremental return for Exar's stockholders. For additional details, see *Note 7 – "Restructuring Charges and Exit Costs*." As a result of this restructuring and the resultant re-prioritization of resources, we anticipated a decline in forecasted revenue related to certain intangible assets that were acquired in prior business combinations. Consequently, we performed an intangible assets impairment review during the second quarter of fiscal year 2015. Upon completion of this review, we recorded $12.3 million of impairment charges to acquired intangibles in the second quarter of fiscal year 2015. Of these impairment charges, $7.5 million and $4.8 million are related to High-Performance Analog and Data Compression products, respectively. During the fourth quarter of fiscal year 2015, we abandoned certain IPR&D project that did not meet critical specifications. Consequently, we recoded $0.5 million impairment charge to write off this abandoned IPR&D.

Fiscal Year 2014

In the fourth quarter of fiscal year 2014, we conducted our annual impairment review comparing the fair value of our single reporting unit with its carrying value. As of the test date and as of year-end, and before consideration of a control premium, the fair value, which was estimated as our market capitalization, exceeded the carrying value of our net assets. As a result, no goodwill impairment was recorded for fiscal year 2014.

Due to the decline in forecasted revenue related to certain acquired intangible assets, we conducted an intangible impairment review to evaluate the recoverability of our long-lived assets in the fourth quarter of the fiscal year 2014. As a result, we recorded a $1.6 million impairment charge.

**Other Income and Expenses**

*Interest Income and Other, Net*

Interest income and other, net primarily consists of:

- interest income;
- foreign exchange gains or losses; and
- realized gains or losses on marketable securities.

Fiscal Year 2015 versus Fiscal Year 2014

The decrease in other income and expenses during fiscal year 2015 as compared to fiscal year 2014 was primarily attributable to a decrease in interest income of $0.9 million as a result of the sale of our short-term investments in the first quarter of fiscal year 2015.

Fiscal Year 2014 versus Fiscal Year 2013

The decrease in other income and expenses during fiscal year 2014 as compared to fiscal year 2013 was primarily attributable to a decrease in interest income as a result of the decline in interest rates related to our cash and short-term investments.

*Interest Expense*

Interest expense was increased by $0.9 million in fiscal year 2015 as compared to fiscal year 2014 as a result of $65.0 million of short term debt borrowed from Stifel Financial Corporation ("Stifel") and CTBC Bank Corporation (USA) ("CTBC") during fiscal year 2015. We expect the interest expense to be immaterial for future periods. Interest expense during fiscal year 2014 remained consistent as compared to fiscal year 2013.

*Impairment Charges on Investments*

We periodically review and determine whether our investments with unrealized loss positions are other-than-temporarily impaired. 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 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 on the consolidated statements of operations. Declines in value of our investments both marketable and non-marketable, judged to be other-than-temporary, are reported in the impairment of long term investment line in the consolidated statements of operations.

Our long-term investment consisted of our investment in Skypoint Telecom Fund II (US), L.P. ("Skypoint Fund") in which we were a limited partner from 2001 until its dissolution in the first quarter of fiscal year 2015. Skypoint Fund was a venture capital fund that invested primarily in private companies in the telecommunications and/or networking industries. We accounted for this non-marketable equity investment under the cost method. During first quarter of fiscal year 2015, we received approximately 93,000 common shares of CounterPath Corporation ("CounterPath") through the dissolution of Skypoint Fund. CounterPath was one of the investee companies of Skypoint Fund. We estimated the fair value using the market value of common shares as determined by trading on the Nasdaq Capital Market. We also received common shares from the other two private investee companies of Skypoint Fund through the dissolution. We assessed the fair value of the common shares received from these three companies and as a result $0.5 million impairment charges were recorded in fiscal year 2015. In fiscal years 2014 and 2013, we conducted our impairment analysis by comparing the carrying amount to the fair value of the underlying investments and recorded $0.3 million and $0 of impairment charges, respectively. The decline in the value of our non-marketable investments is reported in the impairment of long term investment line in the consolidated statements of operations.

**Provision for Income Taxes**

<u>Fiscal Year 2015</u>

Our effective tax rate for fiscal year 2015 was (2)%. Income tax expense for fiscal year 2015 primarily consists of (1) income tax provision in foreign jurisdictions, offset by the effect of deferred tax accounts under ASC 805; and (2) a one-time US tax expense of $0.8 million related to the complete liquidation of our available-for-sale portfolio in the first quarter of fiscal year 2015.

<u>Fiscal Year 2014</u>

Our effective tax rate for fiscal year 2014 was 317% primarily due to (1) the release of the $6.8 million valuation allowance related to the Cadeka acquisition in July 2013 since the deferred tax liabilities acquired were available as a source of taxable income; and (2) the $1.3 million release of a reserve for uncertain tax positions related to an NOL carryback refund in the third quarter of fiscal year 2014.

<u>Fiscal Year 2013</u>

Our effective tax rate for fiscal year 2013 was (70%) due to release of a $1.3 million reserve for uncertain tax positions related to an NOL carryback refund in the third quarter of 2013.

## Liquidity and Capital Resources

| | Fiscal Years Ended | | |
|---|---|---|---|
| | March 29, 2015 | March 30, 2014 | March 31, 2013 |
| | | (dollars in thousands) | |
| Cash and cash equivalents | $ 55,233 | $ 14,614 | $ 14,718 |
| Short-term investments | — | 152,420 | 190,587 |
| **Total cash, cash equivalents, and short-term investments** | $ 55,233 | $ 167,034 | $ 205,305 |
| **Percentage of total assets** | 20% | 55% | 70% |
| | | | |
| Net cash provided by (used in) operating activities | $ (13,641) | $ 851 | $ 7,366 |
| Net cash provided by (used in) investing activities | 76,530 | 12,786 | (4,828) |
| Net cash provided by (used in) financing activities | (22,270) | (13,741) | 3,466 |
| **Net increase (decrease) in cash and cash equivalents** | $ 40,619 | $ (104) | $ 6,004 |

Fiscal Year 2015

*Operating Activities*— Our net loss was $45.0 million in fiscal year 2015. After adjustments for non-cash items and changes in working capital, we used $13.6 million of cash in operating activities.

Significant non-cash charges included:

- Depreciation and amortization expenses of $18.4 million;
- Intangibles impairment of $12.8 million and impairment of long-term investment of $0.5 million;
- Stock-based compensation expense of $13.6 million;
- Non-cash restructuring charges and exit cost of $8.0 million resulting from reduction of our workforce and impairment of certain intangible and fixed assets; and
- Change in fair value of contingent consideration of $4.3 million related to the acquisitions of Cadeka Microcircuits LLC and Altior Inc.

Working capital changes included:

- a $2.4 million increase in inventory due to inclusion of iML related inventory items;
- a $5.8 million net increase in other current and noncurrent assets primarily due to deferred tax assets addition;
- a $6.7 million decrease in accounts payable primarily due to timing of payments; and
- a $1.3 million net decrease in other current and noncurrent liabilities primarily due to payments made for liabilities acquired through acquisitions and offset by additional accrued liability for engineering design tools acquired.

In fiscal year 2015, net cash provided by investing activities was $76.5 million. Proceeds of $162.4 million from sales and maturities of investments were partially offset by $9.3 million in purchases of investments, $72.7 million used for the iML acquisitions and $3.9 million used for purchases of property, plant and equipment and intellectual property.

In fiscal year 2015, net cash used in financing activities reflects $91.0 million of proceeds received from Stifel and CTBC short-term financing agreements, $5.3 million net proceeds associated with our employee stock plans offset by $91.0 million repayment of Stifel short-term financing agreements, $18.9 million used for acquisition of iML non-controlling interests, $8.0 million repurchase of our common stock and $1.4 million repayment of lease financing obligations.

Fiscal Year 2014

*Operating Activities*— Our net income was $5.8 million in fiscal year 2014. After adjustments for non-cash items and changes in working capital, we generated $0.9 million of cash from operating activities.

Significant non-cash charges included:

- Depreciation and amortization expenses of $12.9 million;
- Change in fair value of contingent consideration of $10.5 million;
- Release of deferred tax valuation allowance of $6.9 million; and
- Stock-based compensation expense of $8.9 million.

Working capital changes included:

- a $5.9 million increase in inventory due to expected increase in future shipments;
- a $5.5 million increase in accounts payable primarily due to change in inventory level; and
- a $8.6 million decrease in accrued liabilities primarily due to $3.0 million settlement payment related to Hillview litigation and $3.9 million restructuring payments made.

In fiscal year 2014, net cash provided by investing activities was $12.8 million. Proceeds of $296.0 million from sales and maturities of investments and $0.1 million from the sale of certain patents were offset by $258.0 million in purchases of investments, $22.8 million for the Cadeka and Stretch acquisitions and $2.7 million used for purchases of property, plant and equipment and intellectual property.

In fiscal year 2014, net cash used in financing activities reflects $9.0 million used for repurchases of our common stock, $6.2 million to pay off loan balance assumed from Stretch acquisition, $3.3 million repayment of lease financing obligations partially offset by $4.7 million of proceeds associated with our employee stock plans.

Fiscal Year 2013

*Operating Activities*— Our net income was $2.9 million in fiscal year 2013. After adjustments for non-cash items and changes in working capital, we generated $7.4 million of cash from operating activities.

Significant non-cash charges included:

- Depreciation and amortization expenses of $10.8 million; and
- Stock-based compensation expense of $4.8 million.

Working capital changes included:

- a $4.6 million increase in accounts receivable primarily due to the timing of shipments;
- a $0.9 million increase in inventory due to expected increase in future shipments; and
- a $3.7 million decrease in accrued restructuring charges and exit costs– current portion, primarily due to payments made.

In fiscal year 2013, net cash used in investing activities was $4.8 million. Proceeds of $197.6 million from sales and maturities of investments and $0.4 million from the sale of certain patents were offset by $200.7 million in purchases of investments, $1.4 million used for purchases of property, plant and equipment and intellectual property and $0.8 million for the acquisition of Altior.

In fiscal year 2013, net cash provided by financing activities reflects $6.3 million of proceeds associated with our employee stock plans partially offset by the $2.8 million repayment of lease financing obligations.

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

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

We believe that our cash and cash equivalents 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, which could have a material adverse effect on our financial condition and results of operations. From time to time, we evaluate potential acquisitions, strategic arrangements and equity investments that we believe are complementary to our design expertise and market strategy. To the extent that we pursue or position ourselves to pursue these transactions, we could consume a significant portion of our capital resources or choose to seek additional equity or debt financing. Additional financing may not be available on terms acceptable to us or at all. The sale of additional equity or convertible debt could result in dilution to our stockholders.

**Off-Balance Sheet Arrangements**

As of March 29, 2015, we had not utilized special purpose entities to facilitate off-balance sheet financing arrangements. However, we have, in the normal course of business, entered into agreements which impose warranty obligations with respect to our products or which obligate us to provide indemnification of varying scope and terms to customers, vendors, lessors and business partners, our directors and executive officers, purchasers of assets or subsidiaries, and other parties with respect to certain matters. These arrangements may constitute "off-balance sheet transactions" as defined in Section 303(a)(4) of Regulation S-K. Please see *"Notes to the Consolidated Financial Statements, Note 16—Commitments and Contingencies"* for further discussion of our product warranty liabilities and indemnification obligations.

As discussed in *"Notes to the Consolidated Financial Statements, Note 16—Commitments and Contingencies,"* during the normal course of business, we make certain indemnities and commitments under which we may be required to make payments in relation to certain transactions. These indemnities include non-infringement of patents and intellectual property, indemnities to our customers in connection with the delivery, design, performance, manufacture and sale of our products, indemnities to our directors and officers in connection with legal proceedings, indemnities to various lessors in connection with facility leases for certain claims arising from such facility or lease, and indemnities to other parties to certain acquisition agreements. The duration of these indemnities and commitments varies, and in certain cases, is indefinite. We believe that substantially all of our indemnities and commitments provide for limitations on the maximum potential future payments we could be obligated to make. However, we are unable to estimate the maximum amount of liability related to our indemnities and commitments because such liabilities are contingent upon the occurrence of events which are not reasonably determinable. Management believes that any liability for these indemnities and commitments would not be material to our accompanying consolidated financial statements.

**Contractual Obligations and Commitments**

The following is a summary of fixed payments related to certain off-balance sheet contractual obligations as of March 29, 2015 (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) | $ 21,197 | $ 18,501 | $ 700 | $ 754 | $ 1,242 |
| Operating lease commitments (2) | 889 | 634 | 252 | 3 | — |
| **Total** | $ 22,086 | $ 19,135 | $ 952 | $ 757 | $ 1,242 |

(1) Our contracts with our suppliers generally require us to provide purchase order commitments that are generally binding and cannot be canceled.
(2) We lease many of our office facilities for various terms under operating lease agreements. The leases expire at various dates from fiscal year 2016 through fiscal year 2019.

**Other Commitments**

As of March 29, 2015, our unrecognized tax benefits were $17.6 million, of which $4.4 million was classified as other non-current obligations. We believe that it is reasonably possible that the amount of gross unrecognized tax benefits related to the resolution of income tax matters could be reduced by approximately $1.4 million during the next 12 months as the statute of limitations expires. See *Note 18 – "Income Taxes."*

**Recent Accounting Pronouncements**

Please refer to *Part II, Item 8—"Financial Statements and Supplementary Data"* and *"Notes to Consolidated Financial Statements, Note 2—Accounting Policies."*

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following discusses our exposure to market risk related to changes in interest rates and foreign currency exchange rates. We do not currently own any equity investments. This discussion contains forward-looking statements that are subject to risks and uncertainties. Actual results could vary materially as a result of a number of factors.

*Interest Rate Risk.* As of March 29, 2015, we had cash and cash equivalents of $55.2 million. Cash and cash equivalents consisted of cash and highly liquid money market instruments. We would not expect our operating results or cash flows to be affected to any significant degree by the effect of a sudden change in market interest on our portfolio. A hypothetical increase in market interest rates of 1% from the market rates in effect at March 29, 2015 would cause the fair value of these investments to decrease by an immaterial amount which would not have significantly impacted our financial position or results of operations. Declines in interest rates over time will result in lower interest income and interest expense.

*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. For fiscal years 2015 and 2014, we did not have significant foreign currency denominated net assets or net liabilities positions, and had no foreign currency contracts outstanding.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Exar Corporation
Fremont, California

We have audited the accompanying consolidated balance sheets of Exar Corporation as of March 29, 2015 and March 30, 2014 and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended March 29, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Exar Corporation at March 29, 2015 and March 30, 2014, and the results of its operations and its cash flows for each of the three years in the period ended March 29, 2015, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Exar Corporation's internal control over financial reporting as of March 29, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated June 5, 2015 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
San Jose, California

June 5, 2015

**Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting**

The Board of Directors and Stockholders
Exar Corporation
Fremont, California

We have audited Exar Corporation's internal control over financial reporting as of March 29, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Exar Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Management's Annual Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Exar Corporation maintained, in all material respects, effective internal control over financial reporting as of March 29, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Exar Corporation as of March 29, 2015 and March 30, 2014 and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended March 29, 2015 and our report dated June 5, 2015 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
San Jose, California

June 5, 2015

**EXAR CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**
**(In thousands, except share amounts)**

| | March 29, 2015 | March 30, 2014 |
|---|---|---|
| **ASSETS** | | |
| **Current assets:** | | |
| Cash and cash equivalents | $ 55,233 | $ 14,614 |
| Short-term marketable securities | — | 152,420 |
| Accounts receivable (net of allowances of $1,334 and $1,178) | 27,459 | 15,023 |
| Accounts receivable, related party (net of allowances of $774 and $608) | 1,663 | 3,309 |
| Inventories | 30,767 | 28,982 |
| Other current assets | 3,090 | 3,549 |
| Total current assets | 118,212 | 217,897 |
| Property, plant and equipment, net | 26,077 | 21,280 |
| Goodwill | 44,871 | 30,410 |
| Intangible assets, net | 86,102 | 31,390 |
| Other non-current assets | 7,838 | 1,240 |
| **Total assets** | $ 283,100 | $ 302,217 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Current liabilities:** | | |
| Accounts payable | $ 13,526 | $ 15,488 |
| Accrued compensation and related benefits | 5,649 | 4,174 |
| Deferred income and allowances on sales to distributors | 3,362 | 1,765 |
| Deferred income and allowances on sales to distributors, related party | 6,982 | 9,349 |
| Other current liabilities | 21,287 | 11,370 |
| Total current liabilities | 50,806 | 42,146 |
| Long-term lease financing obligations | 5,069 | 70 |
| Other non-current obligations | 4,393 | 6,626 |
| Total liabilities | 60,268 | 48,842 |
| Commitments and contingencies (Notes 15, 16 and 17) | | |
| **Stockholders' equity:** | | |
| Common stock, $.0001 par value; 100,000,000 shares authorized; 47,745,618 and 47,336,005 shares outstanding (net of treasury shares) | 5 | 5 |
| Additional paid-in capital | 521,490 | 508,116 |
| Accumulated other comprehensive loss | (26) | (1,079) |
| Accumulated deficit | (298,637) | (253,667) |
| Total stockholders' equity | 222,832 | 253,375 |
| **Total liabilities and stockholders' equity** | $ 283,100 | $ 302,217 |

See accompanying notes to consolidated financial statements.

**EXAR CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**
**(In thousands, except per share amounts)**

| | Fiscal Years Ended | | |
|---|---|---|---|
| | March 29, 2015 | March 30, 2014 | March 31, 2013 |
| **Sales:** | | | |
| Net sales | $ 125,791 | $ 89,595 | $ 85,856 |
| Net sales, related party | 36,259 | 35,727 | 36,170 |
| Total net sales | 162,050 | 125,322 | 122,026 |
| | | | |
| **Cost of sales:** | | | |
| Cost of sales | 71,139 | 48,067 | 45,943 |
| Cost of sales, related party | 14,359 | 15,738 | 16,716 |
| Amortization of purchased intangible assets and inventory step-up | 11,740 | 7,600 | 3,379 |
| Impairment of intangible assets | 8,367 | 1,636 | — |
| Restructuring charges and exit costs | 7,597 | 187 | 301 |
| Warranty reserve | (1,078) | 1,440 | — |
| Total cost of sales | 112,124 | 74,668 | 66,339 |
| **Gross profit** | 49,926 | 50,654 | 55,687 |
| | | | |
| Operating expenses: | | | |
| Research and development | 37,181 | 27,048 | 22,376 |
| Selling, general and administrative | 43,758 | 33,055 | 32,531 |
| Merger and acquisition costs | 7,348 | 1,880 | 110 |
| Restructuring charges and exit costs, net | 4,589 | 2,827 | 1,253 |
| Impairment of intangibles | 4,456 | — | — |
| Net change in fair value of contingent consideration | (4,343) | (10,455) | — |
| Total operating expenses, net | 92,989 | 54,355 | 56,270 |
| **Loss from operations** | (43,063) | (3,701) | (583) |
| | | | |
| Other income and expense, net: | | | |
| Interest income and other, net | 571 | 1,503 | 2,441 |
| Interest expense | (1,082) | (156) | (165) |
| Impairment of long term investment | (544) | (323) | — |
| Total other income and expense, net | (1,055) | 1,024 | 2,276 |
| | | | |
| **Income (loss) before income taxes** | (44,118) | (2,677) | 1,693 |
| Provision for (benefit from) income taxes | 889 | (8,478) | (1,189) |
| **Net income (loss)** | (45,007) | 5,801 | 2,882 |
| Less: Net loss attributable to non-controlling interests | (37) | — | — |
| **Net income (loss) attributable to Exar Corporation** | $ (44,970) | $ 5,801 | $ 2,882 |
| | | | |
| Net income (loss) per share to common stockholders: | | | |
| Basic | $ (0.95) | $ 0.12 | $ 0.06 |
| Diluted | $ (0.95) | $ 0.12 | $ 0.06 |
| | | | |
| Shares used in the computation of net income (loss) per share: | | | |
| Basic | 47,253 | 47,291 | 45,809 |
| Diluted | 47,253 | 48,823 | 46,476 |

See accompanying notes to consolidated financial statements.

**EXAR CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**
**(In thousands)**

| | Fiscal Years Ended | | |
|---|---|---|---|
| | **March 29, 2015** | **March 30, 2014** | **March 31, 2013** |
| Net income (loss) | $ (45,007) | $ 5,801 | $ 2,882 |
| Changes in market value of investments, net of tax: | | | |
| Changes in unrealized gain (loss) on investments | 199 | (754) | (243) |
| Reclassification adjustment for net realized gains (losses) | 26 | 201 | (82) |
| Release of tax provision for unrealized gains | 828 | — | — |
| Net change in market value of investments | 1,053 | (553) | (325) |
| **Comprehensive income (loss)** | $ (43,954) | $ 5,248 | $ 2,557 |
| Less: comprehensive loss attributable to non-controlling interests | (37) | — | — |
| **Comprehensive income (loss) attributable to Exar Corporation** | $ (43,917) | $ 5,248 | $ 2,557 |

See accompanying notes to consolidated financial statements.

EXAR CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**
**(In thousands, except share amounts)**

| | Common Stock | | Treasury Stock | | Additional Paid-in-Capital | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Total Exar Corporation | Non-Controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | | | | |
| **Balance, April 1, 2012** | 65,169,602 | $ 5 | (19,924,369) | $(248,983) | $ 734,821 | $ (262,350) | $ (201) | $ 223,292 | $ — | $223,292 |
| Net loss | — | — | — | — | — | 2,882 | — | 2,882 | — | 2,882 |
| Change in unrealized gains on marketable securities | — | — | — | — | — | — | (325) | (325) | — | (325) |
| Shares issued through employee stock plans | 903,772 | — | — | — | 6,296 | — | — | 6,296 | — | 6,296 |
| Shares issued in connection with Altior Inc. acquisition | 357,873 | — | — | — | 3,740 | — | — | 3,740 | — | 3,740 |
| Shares issued for vested restricted stock units | 125,095 | — | — | — | — | — | — | — | — | — |
| Withholding of shares for tax obligations on vested restricted stock units | (24,727) | — | — | — | (219) | — | — | (219) | — | (219) |
| Stock-based compensation | — | — | — | — | 4,788 | — | — | 4,788 | — | 4,788 |
| **Balance, March 31, 2013** | 66,531,615 | $ 5 | (19,924,369) | $(248,983) | $ 749,426 | $ (259,468) | $ (526) | $ 240,454 | $ — | $240,454 |
| Net income | — | — | — | — | — | 5,801 | — | 5,801 | — | 5,801 |
| Change in unrealized gains on marketable securities | — | — | — | — | — | — | (553) | (553) | — | (553) |
| Shares issued through employee stock plans | 805,527 | — | — | — | 5,833 | — | — | 5,833 | — | 5,833 |
| Shares issued in connection with Cadeka Technologies (Cayman) Holding Ltd. acquisition | 438,995 | — | — | — | 5,005 | — | — | 5,005 | — | 5,005 |
| Shares issued for vested restricted stock units | 346,407 | — | — | — | 12 | — | — | 12 | — | 12 |
| Withholding of shares for tax obligations on vested | | | | | | | | | | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| restricted stock units | (106,865) | — | — | — | (1,149) | — | — | (1,149) | — | (1,149) |
| Retirement of treasury shares | (19,924,369) | — | 19,924,369 | 248,983 | (248,983) | — | — | — | — | — |
| Repurchase of common stock | (755,305) | — | — | — | (9,000) | — | — | (9,000) | — | (9,000) |
| Stock-based compensation | — | — | — | — | 6,972 | — | — | 6,972 | — | 6,972 |
| **Balance, March 30, 2014** | 47,336,005 | $ 5 | — | $ — | $ 508,116 | $ (253,667) | $ (1,079) | $ 253,375 | $ — | $253,375 |
| Net loss | — | — | — | — | — | (44,970) | — | (44,970) | — | (44,970) |
| Change in unrealized gains on marketable securities | — | — | — | — | — | — | 1,053 | 1,053 | — | 1,053 |
| Shares issued through employee stock plans | 890,709 | — | — | — | 6,358 | — | — | 6,358 | — | 6,358 |
| Option assumed from acquisition of Integrated Memory Logic Limited | — | — | — | — | 3,835 | — | — | 3,835 | — | 3,835 |
| Non-controlling interest upon acquisition of 92% of iML shares and additional contributions | — | — | — | — | (307) | — | — | (307) | 18,920 | 18,613 |
| Purchase of iML non-controlling interests ownership | — | — | — | — | — | — | — | — | (18,883) | (18,883) |
| Net loss attributable to non-controlling interests | — | — | — | — | — | — | — | — | (37) | (37) |
| Shares issued for vested restricted stock units | 414,242 | — | — | — | 416 | — | — | 416 | — | 416 |
| Withholding of shares for tax obligations on vested restricted stock units | (104,376) | — | — | — | (1,090) | — | — | (1,090) | — | (1,090) |
| Repurchase of common stock | (790,962) | — | — | — | (7,999) | — | — | (7,999) | — | (7,999) |
| Stock-based compensation | — | — | — | — | 12,161 | — | — | 12,161 | — | 12,161 |
| **Balance, March 29, 2015** | 47,745,618 | $ 5 | — | $ — | $ 521,490 | $ (298,637) | $ (26) | $ 222,832 | $ — | $222,832 |

See accompanying notes to consolidated financial statements.

**EXAR CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(In thousands)**

| | Fiscal Years Ended | | |
|---|---|---|---|
| | **March 29, 2015** | **March 30, 2014** | **March 31, 2013** |
| **Cash flows from operating activities:** | | | |
| Net income (loss) | $ (45,007) | $ 5,801 | $ 2,882 |
| Reconciliation of net income (loss) to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 18,424 | 12,947 | 10,809 |
| Impairment charges | 13,367 | 2,224 | — |
| Stock-based compensation expense | 13,614 | 8,852 | 4,788 |
| Restructuring charges and exit costs | 7,985 | 57 | 56 |
| Release of deferred tax valuation allowance | 828 | (6,940) | — |
| Gain on sale of intangible asset | — | — | (223) |
| Net change in fair value of contingent consideration | (4,343) | (10,455) | — |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | | |
| Accounts receivable and accounts receivable, related party | (694) | (1,960) | (4,616) |
| Inventories | (2,405) | (5,907) | (930) |
| Other current and non-current assets | (5,766) | (305) | 528 |
| Accounts payable | (6,702) | 5,505 | 1,632 |
| Accrued compensation and related benefits | (865) | 412 | (513) |
| Other current and non-current liabilities | (1,307) | (8,620) | (5,903) |
| Deferred income and allowance on sales to distributors and related party distributor | (770) | (760) | (1,144) |
| Net cash provided by (used in) operating activities | (13,641) | 851 | 7,366 |
| **Cash flows from investing activities:** | | | |
| Purchases of property, plant and equipment and intellectual property, net | (3,925) | (2,658) | (1,385) |
| Purchases of short-term marketable securities | (9,296) | (257,946) | (200,654) |
| Proceeds from maturities of short-term marketable securities | 3,997 | 31,821 | 48,687 |
| Proceeds from sales of short-term marketable securities | 158,412 | 264,221 | 148,914 |
| Acquisition of Integrated Memory Logic Limited, net of cash acquired | (72,658) | — | — |
| Acquisition of Cadeka Microcircuits, LLC and others, net of cash acquired | — | (22,777) | (750) |
| Other disposal activities | — | 125 | 360 |
| Net cash provided by (used in) investing activities | 76,530 | 12,786 | (4,828) |
| **Cash flows from financing activities:** | | | |
| Proceeds from issuance of common stock | 6,358 | 5,844 | 6,515 |
| Purchase of stock for withholding taxes on vested restricted stock | (1,090) | (1,149) | (219) |
| Proceeds from issuance of debt | 91,000 | — | — |
| Repayment of debt | (91,000) | — | — |
| Payment of non-controlling interest of Integrated Memory Logic Limited | (18,883) | — | — |
| Capital contribution from Integrated Memory Logic Limited non-controlling interest | 740 | — | — |
| Repayment of debt assumed from Stretch acquisition | — | (6,187) | — |
| Repurchase of common stock | (7,999) | (9,000) | — |
| Repayment of lease financing obligations | (1,396) | (3,249) | (2,830) |
| Net cash provided by (used) in financing activities | (22,270) | (13,741) | 3,466 |
| **Net increase (decrease) in cash and cash equivalents** | 40,619 | (104) | 6,004 |
| **Cash and cash equivalents at the beginning of year** | 14,614 | 14,718 | 8,714 |
| **Cash and cash equivalents at the end of year** | $ 55,233 | $ 14,614 | $ 14,718 |
| **Supplemental disclosure of cash flow and non-cash information:** | | | |
| Cash paid for income taxes | $ 42 | $ 106 | $ 154 |
| Cash paid for interest | 1,085 | 155 | 165 |
| Non-cash investing and financing activities: | | | |
| Issuance of common stock in connection with Altior acquisition & others | — | 10 | 3,759 |
| Issuance of common stock in connection with Cadeka acquisition | — | 5,005 | — |
| Engineering design tool acquired under capital lease | 8,842 | — | — |
| Release of restricted stock upon vesting | 416 | — | — |

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FISCAL YEARS ENDED MARCH 29, 2015, MARCH 30, 2014 AND MARCH 31, 2013

## NOTE 1. DESCRIPTION OF BUSINESS

Exar Corporation was incorporated in California in 1971 and reincorporated in Delaware in 1991. Exar Corporation and its subsidiaries ("Exar," "us," "our" or "we") is a fabless semiconductor company that designs, develops and markets high performance analog mixed-signal integrated circuits and advanced sub-system solutions for the Industrial and Embedded Systems, High-End Consumer and Infrastructure markets.

## NOTE 2. ACCOUNTING POLICIES

***Basis of Presentation*—**Our fiscal years consist of 52 or 53 weeks. In a 52-week year, each fiscal quarter consists of 13 weeks. Fiscal years 2015, 2014 and 2013 each consisted of 52 weeks. Fiscal year 2016 will consist of 52 weeks. Fiscal years ended March 29, 2015, March 30, 2014 and March 31, 2013 are also referred to as "2015," "2014," and "2013," respectively, unless otherwise indicated.

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.

***Principles of Consolidation*—**The consolidated financial statements include the accounts of Exar and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated.

***Use of Management Estimates*—**The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States ("GAAP") requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including (1) revenue recognition; (2) allowance for doubtful accounts; (3) valuation of inventories; (4) income taxes; (5) stock-based compensation; (6) goodwill; (7) long-lived assets; (8) contingent consideration; (9) restructuring accruals; and (10) warranty liabilities. Actual results could differ from these estimates and material effects on operating results and financial position may result.

***Business Combinations*—**The estimated fair value of acquired assets and assumed liabilities and the results of operations of acquired businesses are included in our consolidated financial statements from the effective date of the purchase. The total purchase price is allocated to the estimated fair value of assets acquired and liabilities assumed. See *Note 3 - "Business Combinations."*

***Cash and Cash Equivalents*—**We consider all highly liquid debt securities and investments with maturities of 90 days or less from the date of purchase to be cash and cash equivalents. Cash and cash equivalents also consist of cash on deposit with banks and money market funds.

***Inventories*—**Inventories are recorded at the lower of cost or market, determined on a first-in, first-out basis. Cost is computed using the standard cost, which approximates average actual cost. Inventory is written down when conditions indicate that the selling price could be less than cost due to physical deterioration, obsolescence, changes in price levels, or other causes. The write-down of excess inventories is generally based on inventory levels in excess of 12 months of demand, as judged by management, for each specific product.

***Property, Plant and Equipment*—** Property, plant and equipment, including assets held under capital leases and leasehold improvements, are stated at cost less accumulated depreciation and amortization. Depreciation for machinery and equipment is computed using the straight-line method over the estimated useful lives of the assets, which ranges from three to 10 years. Buildings are depreciated using the straight-line method over an estimated useful life of 30 years. Assets held under capital leases and leasehold improvements are amortized over the shorter of the terms of the leases or their estimated useful lives. Land is not depreciated.

***Non-Marketable Equity Securities***—Non-marketable equity investments are accounted for at historical cost and are presented on our consolidated balance sheets within other non-current assets.

***Other-Than-Temporary Impairment***—All of our marketable and non-marketable investments are subject to periodic impairment reviews. Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary, as follows:

*Marketable investments*—When the resulting fair value is significantly below cost basis and/or the significant decline has lasted for an extended period of time, we perform an evaluation to determine whether the marketable equity security is other than temporarily impaired. The evaluation that we use to determine whether a marketable equity security is other than temporarily impaired is based on the specific facts and circumstances present at the time of assessment, which include significant quantitative and qualitative assessments and estimates regarding credit ratings, collateralized support, the length of time and significance of a security's loss position and intent and ability to hold a security to maturity or forecasted recovery. Other-than-temporary declines in value of our investments are reported in the impairment of long term investment line in the consolidated statements of operations.

*Non-marketable equity investments*—When events or circumstances are identified that would likely have a significant adverse effect on the fair value of the investment and the fair value is significantly below cost basis and/or the significant decline has lasted for an extended period of time, we perform an impairment analysis. The indicators that we use to identify those events and circumstances include:

- the investment manager's evaluation;
- the investee's revenue and earnings trends relative to predefined milestones and overall business prospects;
- the technological feasibility of the investee's products and technologies;
- the general market conditions in the investee's industry; and
- the investee's liquidity, debt ratios and the rate at which the investee is using cash.

Investments identified as having an indicator of impairment are subject to further analysis to determine if the investment is other than temporarily impaired, and if so, the investment is written-down to its impaired value. When an investee is not considered viable from a financial or technological point of view, the entire investment is written down. Impairment of non-marketable equity investments is recorded in the impairment charges on investments line in the consolidated statements of operations.

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

***Long-Lived Assets—***We review long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets (or asset group) may not be fully recoverable. Whenever events or changes in circumstances suggest that the carrying amount of long-lived assets may not be recoverable, we estimate the future cash flows expected to be generated by the assets (or asset group) from its use or eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of those assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets. Significant management judgment is required in the grouping of long-lived assets and forecasts of future operating results that are used in the discounted cash flow method of valuation. If our actual results or the plans and estimates used in future impairment analyses are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges.

When we determine that the useful lives of assets are shorter than we had originally estimated, we accelerate the rate of depreciation and/or amortization over the assets' new, shorter useful lives.

Substantially all of our property, plant and equipment and other long-lived assets are located in the United States.

***In-process research and development—***In-process research and development ("IPR&D") assets are considered indefinite-lived intangible assets and are not subject to amortization until their useful life is determined. 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 assets with their carrying values. 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 their new accounting basis. Subsequent reversal of a previously recognized impairment loss is prohibited under GAAP. The initial determination and subsequent evaluation for impairment of the IPR&D asset requires management to make significant judgments and estimates. Once an IPR&D project has 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 in the period when such decision is made. During the fiscal year ended March 29, 2015, we recorded an impairment charge of $0.5 million for one abandoned project and started amortizing IPR&D assets with a carrying value of $1.2 million for three completed projects.

***Income Taxes*****—**Deferred taxes are recognized using the asset and liability method, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, operating losses and tax credit carryforwards. Valuation allowances are provided if it is more likely than not that some or all of the deferred tax assets will not be realized.

***Revenue Recognition*****—**We recognize revenue in accordance with Financial Accounting Standards Board ("FASB") authoritative guidance for revenue recognition. Four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the price is fixed or determinable; and (4) collectability is reasonably assured.

We derive revenue principally from the sale of our products to distributors and to original equipment manufacturers ("OEMs") or their contract manufacturers. Our delivery terms are primarily free on board shipping point, at which time title and all risks of ownership are transferred to the customer.

To date, software revenue has been an immaterial portion of our net sales.

***Non-distributors*****—**For non-distributors, revenue is recognized when title to the product is transferred to the customer, which occurs upon shipment or delivery, depending upon the terms of the customer order, provided that persuasive evidence of a sales arrangement exists, the price is fixed or determinable, collection of the resulting receivables is reasonably assured, there are no customer acceptance requirements and there are no remaining significant obligations. Provisions for returns and allowances for non-distributor customers are provided at the time product sales are recognized. Allowances for sales returns and other reserves are recorded based on historical experience or specific identification of an event necessitating an allowance.

***Distributors*****—**Agreements with our primary distributors permit the return of 3% to 6% of their purchases during the preceding quarter for purposes of stock rotation. For one of these distributors, a scrap allowance of 1% of the preceding quarter's purchases is permitted. We also provide discounts to certain distributors based on volume of product they sell for a specific product with a specific volume range for a given customer over a period not to exceed one year.

We recognize revenue from each of our distributors using the sell-in basis or sell-through basis, each as described below. Once adopted, the basis for revenue recognition for a distributor is maintained unless there is a change in circumstances or contractual terms indicating the basis for revenue recognition for that distributor or any particular transaction is no longer appropriate.

- ***Sell-in Basis*****—**Revenue is recognized upon shipment if we conclude we meet the same criteria as for non-distributors discussed above and we can reasonably estimate the credits for returns, pricing allowances and/or other concessions. We record an estimated allowance, at the time of shipment, based upon historical patterns of returns, pricing allowances and other concessions (i.e., "sell-in" basis).

- ***Sell-through Basis*****—**Revenue and the related costs of sales are deferred until the resale to the end customer if we grant more than limited rights of return, pricing allowances and/or other concessions or if we cannot reasonably estimate the level of returns and credits issuable (i.e., "sell-through" basis). Under the sell-through basis, accounts receivable are recognized and inventory is relieved upon shipment to the distributor as title to the inventory is transferred upon shipment, at which point we have a legally enforceable right to collection under normal terms. The associated sales and cost of sales are deferred and are included in deferred income and allowances on sales to distributors in the consolidated balance sheet. When the related product is sold by our distributors to their end customers, at which time the ultimate price we receive is known, we recognize previously deferred income as sales and cost of sales.

  The following table summarizes the deferred income balance, primarily consisting of sell-through distributors (in thousands):

| | As of March 29, 2015 | As of March 30, 2014 |
|---|---|---|
| Deferred revenue at published list price | $ 15,029 | $ 15,871 |
| Deferred cost of revenue | (4,685) | (4,757) |
| Deferred income | $ 10,344 | $ 11,114 |

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 judgments 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.

***Mask Costs*—**We incur costs for the fabrication of masks to manufacture our products. If we determine the product technological feasibility has been achieved when costs are incurred, the costs will be treated as pre-production costs and capitalized as machinery and equipment under property, plant and equipment. The amount will be amortized to cost of sales over the estimated production period of the product. If product technological feasibility has not been achieved or the mask is not expected to be utilized in production manufacturing, the related mask costs are expensed to Research and development ("R&D") when incurred. We periodically assess capitalized mask costs for impairment. Total mask costs capitalized were $0.3 million and $2.3 million as of March 29, 2015 and March 30, 2014, respectively. The costs capitalized are amortized over five years commencing with the start of commercial production. In the fiscal year ended March 29, 2015 we recorded an impairment charge of $2.0 million during our strategic restructuring process prompted by our recent acquisition of iML and associated significant reduction in force.

***Research and Development Expenses*—** R&D costs consist primarily of salaries, employee benefits, certain types of mask tooling costs, depreciation, amortization, overhead, outside contractors, facility expenses, and non-recurring engineering fees. Expenditures for research and development are charged to expense as incurred. In accordance with FASB authoritative guidance for the costs of computer software to be sold, leased or otherwise marketed, certain software development costs are capitalized after technological feasibility has been established. The period from achievement of technological feasibility, which we define as the establishment of a working model, until the general availability of such software to customers, has been short, and therefore software development costs qualifying for capitalization have been insignificant. Accordingly, we have not capitalized any software development costs in fiscal years 2015, 2014 and 2013.

We have entered into an agreement under which certain R&D costs are eligible for reimbursement. Amounts reimbursed under this arrangement are offset against R&D expenses. During fiscal years 2015, 2014 and 2013, we offset $0.3 million, $1.5 million and $2.0 million, respectively, of R&D expenses in connection with such agreements.

***Advertising Expenses*—**We expense advertising costs as incurred. Advertising expenses for fiscal years 2015, 2014 and 2013 were immaterial.

***Comprehensive Income (Loss)*—**Comprehensive income (loss) includes charges or credits to equity related to changes in unrealized gains or losses on marketable securities, net of taxes. Comprehensive income (loss) for fiscal years 2015, 2014 and 2013 has been disclosed within the consolidated statements of comprehensive income (loss).

***Foreign Currency*—**The accounts of foreign subsidiaries are remeasured to U.S. dollars for financial reporting purposes by using the U.S. dollar as the functional currency and exchange gains and losses are reported in income and expenses. These currency gains or losses are reported in interest income and other, net in the consolidated statements of operations. Monetary balance sheet accounts are remeasured using the current exchange rate in effect at the balance sheet date. For non-monetary items, the accounts are measured at the historical exchange rate. Revenues and expenses are remeasured at the average exchange rates for the period. Foreign currency transaction losses were immaterial for fiscal years 2015, 2014 and 2013.

***Concentration of Credit Risk and Significant Customers*—**Financial instruments potentially subjecting us to concentrations of credit risk consist primarily of cash, cash equivalents, short-term marketable securities, accounts receivable and long-term investments. The majority of our sales are derived from distributors and manufacturers in the communications, industrial, storage and computer industries. We perform ongoing credit evaluations of our customers and generally do not require collateral for sales on credit. We maintain allowances for potential credit losses, and such losses have been within management's expectations. Charges to bad debt expense were $0.5 million for fiscal year 2015 and insignificant for fiscal years 2014 and 2013. Our policy is to invest our cash, cash equivalents and short-term marketable securities with high credit quality financial institutions and limit the amounts invested with any one financial institution or in any type of financial instrument. We do not hold or issue financial instruments for trading purposes.

We sell our products to distributors and OEMs throughout the world. Future Electronics, Inc. ("Future"), a related party, has been and continues to be our largest distributor. See *Note 19 — "Segment and Geographic Information,"* for distributors who accounted for more than 10% of net sales and accounts receivable.

***Concentration of Other Risks*—**The majority of our products are currently fabricated by our foundry suppliers and are assembled and tested by third-party subcontractors located in Asia. A significant disruption in the operations of one or more of these subcontractors could impact the production of our products for a substantial period of time which could result in a material adverse effect on our business, financial condition and results of operations.

***Fair Value of Financial Instruments*—**We estimate the fair value of our financial instruments by using available market information and valuation methodologies considered to be appropriate. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. The use of different market assumptions and/or estimation methodologies could have a material effect on estimated fair value amounts. The estimated fair value of our cash equivalents, short-term marketable securities, accounts receivable, accounts payable and accrued liabilities presented in the consolidated balance sheets at March 29, 2015, March 30, 2014 and March 31, 2013 was not materially different from the carrying values due to the relatively short periods to maturity of the instruments.

***Fair Value of Contingent Consideration*—**We estimate the fair value of our contingent consideration at the date of acquisition and is re-measured each reporting period and any changes in the fair value of the contingent consideration are recognized as a gain or loss in the consolidated statements of operations. The contingent consideration is valued with level three inputs. Due to a significant decrease in revenue projections for products associated with contingent consideration, the fair value of the contingent consideration from the acquisitions of Altior and Cadeka was fully released as of September 28, 2014. As of March 30, 2014, the fair value of the contingent consideration was $4.3 million and is included in current and noncurrent liabilities on the consolidated balance sheet.

***Stock-Based Compensation*—**We measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. We use the Black-Scholes model to estimate the fair value of our options. The fair value of time-based and performance-based restricted stock units is based on the grant date share price. The fair value of market-based restricted stock units and options is estimated using a Monte Carlo simulation model. See *Note 14 - "Stock-Based Compensation*" for more details about our assumptions used in calculating the stock-based compensation expenses and equity related transactions during the fiscal year.

We recognize compensation expense equal to the grant-date fair value for all share-based payment awards that are expected to vest. This expense is recorded on a straight-line basis over the requisite service period of the entire awards, unless the awards are subject to performance or market conditions, in which case we recognize compensation expense over the requisite service period of each separate vesting tranche. For the performance-based awards, we recognize compensation expense when it becomes probable that the performance criteria specified in the plan will be achieved. For the market-based awards, compensation expense is not reversed if the market condition is not satisfied. The amount of stock-based compensation that we recognize is also based on an expected forfeiture rate. If there is a difference between the forfeiture assumptions used in determining stock-based compensation costs and the actual forfeitures which become known over time, we may change the forfeiture rate, which could have a significant impact on its stock-based compensation expense. In addition, we follow the "with-and-without" intra-period allocation approach in our tax attribute calculations.

***Recent Accounting Pronouncements***

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers. The core principle of ASU 2014-09 is that revenue should be recognized in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 defines a five-step process in order to achieve this core principle which may require the use of judgment and estimates. The entity may adopt ASU 2014-09 either by using a full retrospective approach for all periods presented or a modified retrospective approach. This standard is effective for annual reporting periods beginning after December 15, 2016. In April 2015, the FASB issued an exposure draft proposing a one-year delay of the effective date of this new revenue recognition standard. Exar is currently evaluating the effect adoption of this standard will have, if any, on its consolidated financial position, results of operations or cash flows.

In June 2014, the FASB issued ASU No. 2014-12, Accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. Under ASU No. 2014-12, a performance target that affects vesting and that could be achieved after the requisite service period should be treated as a performance condition and therefore, should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. ASU No. 2014-12 is effective for annual reporting periods beginning after December 15, 2015. Exar has not yet selected a transition method and is currently evaluating the effect of adoption of this standard, if any, on its consolidated financial position, results of operations or cash flows.

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, to provide guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures requirement. ASU 2014-15 (1) provides a definition of the term substantial doubt, (2) requires an evaluation every reporting period including interim periods, (3) provides principles for considering the mitigating effect of management's plans, (4) requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) requires an express statement and other disclosures when substantial doubt is not alleviated, and (6) requires an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). ASU 2014-15 is effective for the annual reporting period ending after December 15, 2016, and for annual periods and interim periods thereafter. Exar does not expect the adoption of this guidance will have a material impact on its consolidated financial position, results of operations or cash flows.

**NOTE 3. BUSINESS COMBINATIONS**

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

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

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

To establish fair value, we measure the price that would be received 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.

When partial ownership in an acquiree is obtained and it is determined that the company controls the acquiree, the assets acquired, liabilities assumed and any non-controlling interests are recognized and consolidated at 100% of their fair values at that date, regardless of the percentage ownership in the acquiree. As goodwill is calculated as a residual, all goodwill of the acquired business, not just the company's share, is recognized under this "full-goodwill" approach. Non-controlling interests are stated at the non-controlling shareholder's proportion of the acquired net assets. The results of entities acquired during the year are included until the date control changes.

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

**Acquisition of Integrated Memory Logic Limited**

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

*Consideration*

In June 2014, we acquired approximately 92% of iML's outstanding shares for $206.4 million in cash. In September 2014, we acquired the remaining 8% of iML outstanding shares and vested options exercised subsequent to June 3, 2014 for $18.9 million. Additionally, as required under the terms of the merger agreement, we assumed and converted iML's employees' then outstanding options into options to purchase 1.5 million shares of Exar's common stock. The fair value of pre-merger vested options of $3.8 million was recorded as purchase consideration.

In accordance with Accounting Standard Codification ("ASC") 805, Business Combinations, the acquisition of iML's outstanding shares was recorded as a purchase business acquisition since iML was considered a business. Under the purchase method of accounting, the fair value of the consideration was allocated to net assets acquired. The fair value of purchased identifiable intangible assets was determined using discounted cash flow models from operating projections prepared by management using an internal rate of return of 16.9%. The excess of the fair value of consideration paid over the fair values of net assets acquired and identifiable intangible assets resulted in recognition of goodwill of $14.5 million. Goodwill is primarily from expected synergies resulting from combining the operations of iML with that of Exar and is not deductible for tax purposes. The fair value of non-controlling interests was calculated using cash value per acquired share multiplied by the remaining 8% outstanding shares.

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

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

*Purchase Price Allocation*

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

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

| | | Amount |
|---|---|---|
| **Identifiable tangible assets (liabilities)** | | |
| Cash | $ | 133,752 |
| Accounts receivable | | 10,096 |
| Inventories | | 3,950 |
| Other current assets | | 962 |
| Property, plant and equipment | | 480 |
| Other assets | | 308 |
| Current liabilities | | (12,356) |
| Long-term liabilities | | (3,595) |
| **Total identifiable tangible assets (liabilities), net** | | 133,597 |
| **Identifiable intangible assets** | | 80,060 |
| **Total identifiable assets, net** | | 213,657 |
| **Goodwill** | | 14,461 |
| **Fair value of total consideration transferred** | $ | 228,118 |

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

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

*Acquisition Related Costs*

Acquisition related costs, or deal costs, relating to iML are included in the merger and acquisition costs and interest expense line on the consolidated statement of operations for fiscal year 2015 and were approximately $7.2 million.

*Unaudited Pro Forma Financial Information*

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

| | Fiscal Years Ended | |
|---|---|---|
| | March 29, 2015 | March 30, 2014 |
| Net sales | $ 172,780 | $ 186,290 |
| Net income (loss) | $ (36,207) | $ 5,884 |
| Earnings (loss) per share to common stockholders | | |
| Basic | $ (0.77) | $ 0.12 |
| Diluted | $ (0.77) | $ 0.12 |

*Fiscal Year 2015 Compared with Fiscal Year 2014*

The pro forma financial information includes (1) amortization charges from acquired intangible assets of $2.4 and $9.7 million, respectively; (2) the estimated stock-based compensation expense related to the stock options assumed of $0.9 million and $1.0 million, respectively; (3) the elimination of historical intangible assets of $0.1 and $0.4 million, respectively; (4) the elimination of historical stock-based compensation charges recorded by iML of $0.8 million and $0.5 million, respectively, as a result of the cancellation of all outstanding options on the acquisition date; (5) the elimination of acquisition related costs of $11.2 million and $0, respectively; and (6) the related tax provision of $0.6 million for both periods.

The unaudited pro forma condensed financial information is not intended to represent or be indicative of the results of operations of Exar that would have been reported had the acquisition been completed as of April 1, 2013, and should not be taken as representative of the future consolidated results of operations of Exar.

**Acquisition of Stretch, Inc.**

On January 14, 2014, we completed the acquisition of Stretch, Inc. ("Stretch"), a provider of software configurable processors supporting the video surveillance market previously located in Sunnyvale, California. The transaction provides Exar with the technology to deliver an end-to-end high-definition solution for both digital and analog transmission of data from the camera to the DVR or NVR in surveillance applications. Stretch's results of operations and estimated fair value of assets acquired and liabilities assumed were included in our consolidated financial statements beginning January 14, 2014. The pro forma effects of the portion of the Stretch operations assumed through the transaction on our results of operations during fiscal year 2014 and 2013 were considered immaterial.

*Consideration*

Stretch was acquired for which the purchase consideration was $10,000 in cash. By acquiring Stretch, Exar acquired all of Stretch's assets, consisting principally of intellectual property, accounts receivable and inventory, as well as assumed all of Stretch's liabilities and contractual obligations.

In accordance with ASC 805, Business Combinations, the acquisition of Stretch was recorded as a purchase business acquisition since Stretch was considered a business. Under the purchase method of accounting, the fair value of the consideration was allocated to net assets acquired at their fair values. The fair value of purchased identifiable intangible assets was determined using discounted cash flow models from operating projections prepared by management using an internal rate of return ranging from 17% to 21%. The excess of the fair value of consideration paid over the fair values of net assets acquired and identifiable intangible assets resulted in recognition of goodwill of approximately $0.7 million. The goodwill results largely of expected synergies from combining the operations of Stretch with that of Exar and is deductible over 15 years for tax purposes.

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

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

**Acquisition of Cadeka Technologies (Cayman) Holding Ltd.**

On July 5, 2013, we completed the acquisition of substantially all of the assets of Cadeka Technologies (Cayman) Holding Ltd., a privately held company organized under the laws of the Cayman Islands and all the outstanding stock of the subsidiaries of Cadeka, including the equity of its wholly owned subsidiary Cadeka Microcircuits, LLC, a Colorado limited liability company ("Cadeka"). With locations in Loveland, Colorado, Shenzhen and Wuxi, China, Cadeka designs, develops and markets high precision analog integrated circuits for use in industrial and high reliability applications. Cadeka's results of operations and estimated fair value of assets acquired and liabilities assumed were included in our consolidated financial statements beginning July 5, 2013. The pro forma effects of the portion of the Cadeka operations assumed through the transaction on our results of operations during fiscal years 2014 and 2013 were considered immaterial.

*Consideration*

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

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

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

**Acquisition of Altior Inc.**

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

*Consideration*

In accordance with ASC 805, Business Combinations, the total consideration paid for Altior was first allocated to the net tangible liabilities assumed based on the estimated fair values of the assets and liabilities at the acquisition date. The excess of the fair value of the consideration paid over the fair value of Altior's net tangible liabilities assumed and identifiable intangible assets acquired resulted in the recognition of goodwill of $7.2 million primarily related to expected synergies from combining the operations of Altior with that of Exar and the release of deferred tax liabilities. The goodwill is not expected to be tax deductible.

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

| | | Amount |
|---|---|---|
| Tangible assets | $ | 302 |
| Intangible assets | | 7,540 |
| Goodwill | | 7,172 |
| Liabilities assumed | | (136) |
| **Fair value of total consideration transferred** | $ | 14,878 |

## NOTE 4. BALANCE SHEET DETAILS

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

| | | March 29, 2015 | | March 30, 2014 |
|---|---|---|---|---|
| Land | $ | 6,660 | $ | 6,660 |
| Building | | 17,431 | | 16,787 |
| Machinery and equipment | | 41,449 | | 40,675 |
| Software and licenses | | 22,044 | | 17,549 |
| **Property, plant and equipment, total** | | 87,584 | | 81,671 |
| Accumulated depreciation and amortization | | (61,507) | | (60,391) |
| **Total property, plant and equipment, net** | $ | 26,077 | $ | 21,280 |

Depreciation and amortization expense pertaining to property, plant and equipment for fiscal years 2015, 2014 and 2013 was $6.3 million, $5.6 million and $6.8 million, respectively. During fiscal year 2015, we wrote off $7.5 million of fully depreciated assets and recorded $2.0 million impairment charges to write off certain mask costs during our strategic restructuring process prompted by our recent acquisition of iML and associated significant reduction in force. See *Note 7 – "Restructuring Charges and Exit Costs"* for impairment detail.

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

| | | March 29, 2015 | | March 30, 2014 |
|---|---|---|---|---|
| Work-in-progress and raw materials | $ | 16,789 | $ | 13,555 |
| Finished goods | | 13,978 | | 15,427 |
| **Total inventories** | $ | 30,767 | $ | 28,982 |

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

| | | March 29, 2015 | | March 30, 2014 |
|---|---|---|---|---|
| Deferred tax liability | $ | 7,021 | $ | — |
| Short-term lease financing obligations | | 3,834 | | 2,671 |
| Accrued retention bonus | | 2,951 | | 217 |
| Accrued manufacturing expenses, royalties and licenses | | 1,122 | | 1,639 |
| Purchase consideration holdback | | 1,006 | | 1,256 |
| Accrued legal and professional services | | 982 | | 1,453 |
| Accrued restructuring charges and exit costs | | 982 | | 2,214 |
| Accrued sales and marketing expenses | | 686 | | 666 |
| Other current liabilities | | 2,703 | | 1,254 |
| **Total other current liabilities** | $ | 21,287 | $ | 11,370 |

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

| | March 29, 2015 | March 30, 2014 |
|---|---|---|
| Long-term taxes payable | 4,351 | 794 |
| Deferred tax liability | 42 | 614 |
| Fair value of earn out liability – long-term | — | 3,853 |
| Accrued retention bonus | — | 1,181 |
| Accrued restructuring charges and exit costs | — | 155 |
| Other | — | 29 |
| **Total other non-current obligations** | $ 4,393 | $ 6,626 |

## NOTE 5. FAIR VALUE

*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 as follows:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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

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

The fair value of contingent consideration arising from the acquisition of Altior and Cadeka (See *Note 3 — "Business Combinations"*) is classified within Level 3 of the fair value hierarchy since it is based on a probability-based approach that includes significant unobservable inputs.

We received approximately 93,000 common shares of CounterPath Corporation ("CounterPath") through the dissolution of Skypoint Telecom Fund II (US), LP. ("Skypoint Fund"), in which we were a limited partner from 2001 until its dissolution. CounterPath was one of the investee companies of Skypoint. We estimated the fair value using the market value of common shares as determined by trading on the Nasdaq Capital Market. These securities have been classified to Level 2 and recorded in the other non-current assets line item on the consolidated balance sheet. We believe the fair value inputs of CounterPath do not meet all of the criteria for Level 1 classification primarily due to the low trading volume of the stock. See *Note 8 - "Long-term Investments"* for the discussion on Skypoint.

There were no transfers between Level 1, Level 2, and Level 3 during the year ended March 29, 2015.

In the first quarter of fiscal year 2015, we sold all of our short term investments to fund the iML acquisition. The following table summarizes our other investments assets and liabilities as March 29, 2015 (in thousands):

| | March 29, 2015 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets:** | | | | |
| Money market funds | $ 6 | $ — | $ — | $ 6 |
| Common shares of CounterPath | — | 48 | — | 48 |
| **Total investment assets** | $ 6 | $ 48 | $ — | $ 54 |

The fair value of contingent consideration was determined based on a probability-based approach which includes projected revenues, percentage probability of occurrence and discount rate to present value payments. A significant increase (decrease) in the projected revenue, discount rate or probability of occurrence in isolation could result in a significantly higher (lower) fair value measurement. We calculate the fair value of the contingent consideration on a quarterly basis based on a collaborative effort of our operations and financial accounting groups based on additional information as it becomes available. Any change in the fair value adjustment is recorded in the earnings of that period.

During the second quarter of fiscal year 2015, we measured the fair value of the contingent consideration liabilities from the Altior and Cadeka acquisitions based on a combination of income and market approaches which utilizes unobservable inputs (Level 3). Due to the significant decrease in associated product revenue projection within the period in which such contingent consideration could be earned, we determined that the probability of revenue target achievement was highly unlikely. As a result, the fair value of the contingent consideration liabilities has been reduced to zero since the second quarter of fiscal year 2015.

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

| | Amount |
|---|---|
| As of April 1, 2012 | $ — |
| Estimated contingent consideration liability | 10,138 |
| As of March 31, 2013 | 10.138 |
| Fair value adjustment | (7,165) |
| As of March 30, 2014 | 2,973 |
| Fair value adjustment | (2,973) |
| **As of March 29, 2015** | $ — |

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

| | Amount |
|---|---|
| As of March 31, 2013 | $ — |
| Estimated contingent consideration liability | 4,660 |
| Fair value adjustment | (3,290) |
| As of March 30, 2014 | 1,370 |
| Fair value adjustment | (1,370) |
| **As of March 29, 2015** | $ — |

Our investment assets, measured at fair value on a recurring basis, as of March 30, 2014 were as follows (in thousands, except for percentages):

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

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

| | March 29, 2015 | March 30, 2014 |
|---|---|---|
| **Cash and cash equivalents** | | |
| Cash in financial institutions | $ 55,227 | $ 9,978 |
| Money market funds | 6 | 4,636 |
| **Total cash and cash equivalents** | $ 55,233 | $ 14,614 |
| | | |
| **Short-term marketable securities** | | |
| U.S. government and agency securities | $ — | $ 22,512 |
| State and local government securities | — | 2,772 |
| Corporate bonds and securities | — | 71,253 |
| Asset-backed securities | — | 27,635 |
| Mortgage-backed securities | — | 28,248 |
| **Total short-term marketable securities** | $ — | $ 152,420 |

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

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

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

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

| | Fiscal Years Ended | | |
|---|---|---|---|
| | March 29, 2015 | March 30, 2014 | March 31, 2013 |
| Gross realized gains | $ 264 | $ 748 | $ 871 |
| Gross realized losses | (238) | (547) | (953) |
| **Net realized gains (losses)** | $ 26 | $ 201 | $ (82) |

We did not have any unrealized gain (loss) as of March 29, 2015.

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

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

(1) Gross of tax impact of $828

Our asset-backed securities as of March 30, 2014 were comprised primarily of premium tranches of vehicle loans and credit card receivables, while our mortgage-backed securities are primarily from Federal agencies. We did not own auction rate securities nor did we own securities that are classified as subprime.

Management determines the appropriate classification of cash equivalents or short-term marketable securities at the time of purchase and reevaluates such classification as of each balance sheet date. The investments are adjusted for amortization of premiums and accretion of discounts to maturity and such accretion/amortization, which is immaterial for all periods presented, is included in the interest income and other, net line in the consolidated statements of operations. Cash equivalents and short-term marketable securities are reported at fair value with the related unrealized gains and losses included in the accumulated other comprehensive losses line in the consolidated balance sheets.

We periodically review our investments in unrealized loss positions for other-than-temporary impairments. This evaluation includes, but is not limited to, significant quantitative and qualitative assessments and estimates regarding credit ratings, collateralized support, the length of time and significance of a security's loss position, our intent whether or not to sell the security, and whether it is more likely than not that we will not have to sell the security before recovery of its cost basis. All investments were redeemed in the first quarter of fiscal year 2015 to fund the iML acquisition.

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

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

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

| | March 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | **Less than 12 months** | | **12 months or greater** | | **Total** | |
| | **Fair Value** | **Gross Unrealized Losses** | **Fair Value** | **Gross Unrealized Losses** | **Fair Value** | **Gross Unrealized Losses** |
| U.S. government and agency securities | $ 18,245 | $ (39) | $ — | $ — | $ 18,245 | $ (39) |
| Corporate bonds and securities | 48,379 | (87) | 596 | (1) | 48,975 | (88) |
| Asset-backed securities | 7,118 | (12) | 5,478 | (36) | 12,596 | (48) |
| Mortgage-backed securities | 19,682 | (120) | 983 | (18) | 20,665 | (138) |
| **Total** | $ 93,424 | $ (258) | $ 7,057 | $ (55) | $ 100,481 | $ (313) |

**NOTE 6. RELATED PARTY TRANSACTION**

Alonim Investments Inc. ("Alonim") owns approximately 7.6 million shares, or approximately 16%, of our outstanding common stock as of March 29, 2015. As such, Alonim is our largest stockholder and any sales made to Alonim or its affiliates are considered related party transactions and revenue is recognized in accordance to our revenue recognition policy disclosed in *"Note 2 – Accounting Policies"*.

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

| | Fiscal Years Ended | | |
|---|---|---|---|
| | **March 29, 2015** | **March 30, 2014** | **March 31, 2013** |
| Alonim | 22% | 29% | 30% |

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

| | March 29, 2015 | March 30, 2014 |
|---|---|---|
| Alonim | 6% | 18% |

Related party expenses for reimbursement of promotional materials were not significant for fiscal years 2015, 2014 and 2013.

## NOTE 7. RESTRUCTURING CHARGES AND EXIT COSTS

Restructuring expenses result from the execution of management approved restructuring plans that were generally developed to improve our cost structure and/or operations, often in conjunction with our acquisition integration strategies. Restructuring expenses consist of employee severance costs and may also include contract termination costs to improve our cost structure prospectively.

*2015 Restructuring Charges and Exit Costs*

Exar completed a significant strategic restructuring process that began in the quarter ended September 28, 2014. This restructuring was prompted by the recent acquisition of iML, and an associated significant reduction in force, including reductions at our Hangzhou, China; Loveland, Colorado; and Ipoh, Malaysia locations. We believe this restructuring allows us to achieve meaningful synergies and operating efficiencies and focus our resources on strategic priorities that we expect will yield the highest incremental return for Exar's stockholders. During fiscal year 2015, we incurred $12.2 million of restructuring charges and exit costs. The charges consisted primarily of reduction of our workforce, the impairment of certain fixed assets, licensed technologies and write-off of related inventory. Of the total restructuring charges and exist costs, $7.6 million was reflected in cost of sales and $4.6 million was reflected in operating expenses within our consolidated statements of operations.

*2014 Restructuring Charges and Exit Costs*

In fiscal year 2014, we recorded $3.0 million of restructuring charges and exit costs. Of the total restructuring charges and exit costs recorded in fiscal year 2014, $0.2 million was reflected in cost of sales and $2.8 million was reflected in operating expenses within our consolidated statements of operations.

*2013 Restructuring Charges and Exit Costs*

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

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

| | March 30, 2014 | Additions/ adjustments | Non-cash charges | Payments | March 29, 2015 |
|---|---|---|---|---|---|
| Lease termination costs and others | $ 1,615 | $ 522 | $ (220) | $ (1,587) | $ 330 |
| Impairment of fixed assets, licensed technologies and write down of inventory | — | 7,765 | (7,765) | — | — |
| Severance | 754 | 3,899 | — | (4,001) | 652 |
| **Total** | $ 2,369 | $ 12,186 | $ (7,985) | $ (5,588) | $ 982 |

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

See *Note 4 — "Balance Sheet Details*" for current and long-term portion of restructuring charges and exit costs recorded in the consolidated balance sheets as of March 29, 2015 and March 30, 2014.

## NOTE 8. LONG-TERM INVESTMENT

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

We periodically review and determine whether the investment is other-than-temporarily impaired, in which case the investment is written down to its impaired value.

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

| | March 29, 2015 | March 30, 2014 |
|---|---|---|
| Beginning balance | $ 946 | $ 1,288 |
| Net distributions | (8) | (19) |
| Impairment charges | (544) | (323) |
| **Ending balance** | $ 394 | $ 946 |

The carrying amount of approximately $0.4 million as of March 29, 2015 reflects the net of the capital contributions, capital distributions and $0.5 million cumulative impairment charges. During the term of the fund we made $4.8 million in capital contributions to Skypoint Fund since we became a limited partner in July 2001.

*Impairment*

We evaluate our long-term investment for impairment on an annual basis or whenever events and changes in circumstances suggest that the carrying amount may not be recoverable. If the carrying amount exceeds its fair value, the long term-investment is considered impaired and a second step is performed to measure the amount of impairment loss.

During first quarter of fiscal year 2015, we received approximately 93,000 common shares of CounterPath Corporation ("CounterPath") through the dissolution of Skypoint Fund in which we were a limited partner since 2001. CounterPath was one of the investee companies of Skypoint Fund. We estimated the fair value using the market value of common shares as determined by trading on the Nasdaq Capital Market. We also received common shares from the other two private investee companies of Skypoint Fund through the dissolution. We assessed the fair value of the common shares received from these three companies and as a result $0.5 million impairment charges were recorded in fiscal year 2015. In fiscal years 2014 and 2013, we conducted our impairment analysis by comparing the carrying amount to the fair value of the underlying investments and recorded $0.3 million and $0 of impairment charges, respectively.

## NOTE 9. GOODWILL AND INTANGIBLE ASSETS

*Goodwill*

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination. We evaluate goodwill for impairment on an annual basis or whenever events and changes in circumstances suggest that the carrying amount may not be recoverable. We conduct our annual impairment analysis in the fourth quarter of each fiscal year. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. Estimations and assumptions regarding the number of reporting units, future performances, results of our operations and comparability of our market capitalization and net book value will be used. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired and a second step is performed to measure the amount of impairment loss. Because we have one single operating segment with highly integrated business, we assess goodwill for impairment at the enterprise level.

In the fourth quarter of fiscal year 2015, we conducted our annual impairment review comparing the fair value of our single reporting unit with its carrying value. As of the test date and as of fiscal year-end, and before consideration of a control premium, the fair value, which was estimated as our market capitalization, exceeded the carrying value of our net assets. As a result, no goodwill impairment was recorded for fiscal year 2015.

In the fourth quarter of fiscal years 2014 and 2013, we conducted our annual impairment review. As of the test date and as of year-end, and before consideration of a control premium, the fair value, which was estimated as our market capitalization, exceeded the carrying value of our net assets. As a result, no impairment was recorded for fiscal years 2014 or 2013.

The changes in the carrying amount of goodwill for fiscal years 2015 and 2014 were as follows (in thousands):

| | March 29, 2015 | March 30, 2014 |
|---|---|---|
| Beginning balance | $ 30,410 | $ 10,356 |
| Goodwill additions | 14,461 | 20,054 |
| **Ending balance** | $ 44,871 | $ 30,410 |

Goodwill additions during fiscal year 2015 consisted of $14.5 million residual allocation from the iML acquisition purchase price accounting. The goodwill additions during fiscal year 2014 consist of $19.4 million and $0.7 million residual allocation from the Cadeka and Stretch acquisition purchase price accounting, respectively.

***Intangible Assets***

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

| | March 29, 2015 | | | | March 30, 2014 | | |
|---|---|---|---|---|---|---|---|
| | Carrying Amount | Accumulated Amortization | Impairment charge | Net Carrying Amount | Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Amortized intangible assets: | | | | | | | |
| Existing technology | $ 120,041 | $ (47,259) | $ (9,134) | $ 63,648 | $ 63,043 | $ (37,510) | $ 25,533 |
| Customer relationships | 15,165 | (4,520) | (870) | 9,775 | 6,095 | (2,762) | 3,333 |
| Distributor relationships | 7,254 | (1,973) | — | 5,281 | 1,264 | (1,260) | 4 |
| Patents/Core technology | 3,459 | (3,446) | — | 13 | 3,459 | (3,378) | 81 |
| Trade names | 1,330 | (274) | — | 1,056 | 210 | (51) | 159 |
| Total intangible assets subject to amortization | 147,249 | (57,472) | (10,004) | 79,773 | 74,071 | (44,961) | 29,110 |
| In-process research and development | 9,148 | — | (2,819) | 6,329 | 2,280 | — | 2,280 |
| **Total** | $ 156,397 | $ (57,472) | $ (12,823) | $ 86,102 | $ 76,351 | $ (44,961) | $ 31,390 |

Long-lived assets are amortized on a straight-line basis over their respective estimated useful lives except for customer and distributor relationships that are amortized on an accelerated basis. Existing technology is amortized over two to nine years. Customer relationships are amortized over five to seven years. Distributor relationships are amortized over six to seven years. Patents/core technology is amortized over five to six years. Trade names are amortized over three to six years. In-process Research & Development ("IPR&D") is reclassified as existing technology upon completion or written off upon abandonment. During the third fiscal quarter, $1.2 million of IPR&D was reclassified as existing technology upon completion and started amortization. During the fourth fiscal quarter, as a result of not meeting critical specifications, we abandoned one IPR&D project and recorded a $0.5 million charges in the impairment of intangible assets line on the consolidated statement of operations. We expect the amortization of the remaining IPR&D projects to start in fiscal year 2016. We evaluate the remaining useful life of our long-lived assets that are being amortized each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization. If the estimate of an intangible asset's remaining useful life is changed, the remaining carrying amount of the long-lived asset is amortized prospectively over the remaining useful life.

Long-lived assets are evaluated for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets (or asset group) may not be fully recoverable. Whenever events or changes in circumstances suggest that the carrying amount of long-lived assets may not be recoverable, we estimate the future cash flows expected to be generated by the assets (or asset group) from its use or eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of those assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets which is derived using a discounted cash flow model. Significant management judgment is required in the grouping of long-lived assets and forecasts of future operating results that are used in the discounted cash flow method of valuation. If our actual results or the plans and estimates used in future impairment analyses are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges.

During fiscal year 2015, Exar completed a significant strategic restructuring process that began in the quarter ended September 28, 2014. This restructuring was prompted by the acquisition of iML, and an associated significant reduction in force, including reductions at our Hangzhou, China; Loveland, Colorado; and Ipoh, Malaysia locations. We believe this restructuring allows us to achieve meaningful synergies and operating efficiencies and focus our resources on strategic priorities that we expect will yield the highest incremental return for Exar's stockholders. For additional details, see *Note 7 – "Restructuring Charges and Exit Costs."* As a result of this restructuring and the resultant re-prioritization of resources, we anticipated a decline in forecasted revenue related to certain intangible assets that were acquired in prior business combinations. Consequently, we performed an intangible assets impairment review during the second quarter of fiscal year 2015. Upon completion of this review, we recorded $12.3 million of impairment charges to acquired intangibles in the second quarter of fiscal year 2015 for the excess of carrying amount over estimated fair value based on projected cash flows discounted at 21%. Of these impairment charges, $7.5 million and $4.8 million are related to High-Performance Analog and Data Compression products, respectively.

Due to the decline in forecasted revenue related to certain acquired intangible assets, we recorded $1.6 million impairment charges for fiscal year 2014. No impairment charges were recorded for fiscal year 2013.

During the second quarter of fiscal year 2013, we sold certain patents for $500,000 and recorded a gain of approximately $223,000.

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

| | March 29, 2015 | March 30, 2014 | March 31, 2013 |
|---|---|---|---|
| Amortization expense | $ 12,511 | $ 7,813 | $ 4,150 |

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

| Amortization Expense (by fiscal year) | |
|---|---|
| 2016 | $ 12,946 |
| 2017 | 12,859 |
| 2018 | 12,822 |
| 2019 | 12,498 |
| 2020 | 11,707 |
| 2021 and thereafter | 16,941 |
| **Total future amortization excluding IPR&D** | $ 79,773 |

## NOTE 10. NET INCOME (LOSS) PER SHARE

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

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

| | March 29, 2015 | March 30, 2014 | March 31, 2013 |
|---|---|---|---|
| Net income (loss) before non-controlling interests | $ (45,007) | $ 5,801 | $ 2,882 |
| Net income (loss) attributable to non-controlling interests | (37) | — | — |
| Net income (loss) attributable to Exar Corporation | (44,970) | 5,801 | 2,882 |
| Shares used in computation of net income (loss) per share: | | | |
| Basic | 47,253 | 47,291 | 45,809 |
| Effect of options and awards | — | 1,532 | 667 |
| Diluted | 47,253 | 48,823 | 46,476 |
| Net income (loss) per share to common stockholders: | | | |
| Basic | $ (0.95) | $ 0.12 | $ 0.06 |
| Diluted | $ (0.95) | $ 0.12 | $ 0.06 |

All outstanding stock options and RSUs are potentially dilutive securities. As of March 29, 2015, all outstanding stock options and RSUs were excluded from the computation of diluted net loss per share as inclusion of such shares would have an anti-dilutive effect. Accordingly, basic and diluted net loss per share were the same in the period presented. As of March 30, 2014 and March 31, 2013, stock options of 1.4 million and 2.2 million, respectively, were excluded from the computation of diluted net income per share because they were determined to be anti-dilutive.

## NOTE 11. SHORT-TERM DEBT

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

*CTBC*

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

All obligations of Exar under the Business Loan Agreement were unconditionally guaranteed by iML through a $26.0 million short-term certificate deposit with the same institution which had been recorded as restricted cash as of September 28, 2014. As of October 2014, the CTBC business loan has been completely paid off.

*Stifel*

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

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

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

*Interest*

For fiscal year 2015, interest on our short-term debt, which is included in the "Interest expense" line item on the consolidated statement of operations, consisted of the following (in thousands):

| | March 29, 2015 |
|---|---|
| CTBC | $ 265 |
| Stifel | 646 |
| **Total interest on short-term debt** | $ 911 |

## NOTE 12. 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 invested capital and to bring our cash to a more appropriate level for our organization.

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

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

In the first fiscal quarter of 2014, we retired all of our 19.9 million treasury shares.

As of March 29, 2015, we had repurchased shares valued at $105.2 million under the share repurchase program. During fiscal year 2015, we repurchased $8.0 million of our common stock. The repurchased shares were retired immediately. During fiscal years 2014 and 2013, we repurchased $9.0 million and $0 of our common stock, respectively. The remaining authorized amount for the stock repurchase under the repurchase programs is $44.8 million.

Stock repurchase activities during fiscal years 2015 and 2014 are indicated below (in thousands, except per share amounts):

| | Total number of Shares Purchased | Average Price Paid Per Share (or Unit) | Amount Paid for Purchase |
|---|---|---|---|
| As of March 31, 2013 | 9,564 | $ 9.22 | $ 88,189 |
| Repurchases – August 25 to September 29, 2013 | 153 | 13.07 | 1,999 |
| Repurchases – September 30 to October 27, 2013 | 73 | 13.63 | 1,001 |
| Repurchases – November 24 to December 29, 2013 | 83 | 12.09 | 1,000 |
| Repurchases – December 30, 2013 to January 26, 2014 | 122 | 11.61 | 1,417 |
| Repurchases – January 27 to February 23, 2014 | 324 | 11.05 | 3,583 |
| As of March 30, 2014 | 10,319 | $ 9.42 | $ 97,189 |
| Repurchases – March 31 to April 27, 2014 | 273 | 10.98 | 3,000 |
| Repurchases – July 28 to September 28, 2014 | 393 | 9.83 | 3,864 |
| Repurchases – September 29 to December 28, 2014 | 125 | 9.08 | 1,135 |
| **As of March 29, 2015** | 11,110 | $ 9.47 | $ 105,188 |

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

## NOTE 13. EMPLOYEE BENEFIT PLANS

*Exar Savings Plan*

The Exar Savings Plan (“Plan”), as amended and restated, covers our eligible U.S. employees. The Plan provides for voluntary salary reduction contributions in accordance with Section 401(k) of the Internal Revenue Code as well as matching contributions from Exar. For fiscal year 2015 and 2014, our matching contribution was percentage of the employees’ contributions, not to exceed a fixed maximum. For fiscal year 2013, the matching contribution percentage was variable based upon Company’s performance targets set at the beginning of the fiscal year.

Our matching contributions to the Plan for the fiscal years ending on the dates indicated below were as follows (in thousands):

| | March 29, 2015 | March 30, 2014 | March 31, 2013 |
|---|---|---|---|
| Matching contributions | $ 421 | $ 373 | $ 267 |

*Management and Employee Incentive Compensation Programs*

Our incentive compensation programs provide for incentive awards for substantially all employees based on the achievement of personal objectives and our operating performance results. Our incentive compensation programs may be amended or discontinued at the discretion of our board of directors.

Our unpaid incentive compensation for the fiscal years ending on the dates indicated below was as follows (in thousands):

| | March 29, 2015 | March 30, 2014 | March 31, 2013 |
|---|---|---|---|
| Unpaid incentive compensation | $ 1,627 | $ 698 | $ 781 |

**NOTE 14. 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. Exar's ESPP is intended to qualify under Section 423(b) of the U.S. Internal Revenue Code and was initially approved by our stockholders at our 1989 annual shareholder meeting. Our ESPP is non-compensatory.

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

| | Shares of Common Stock | Weighted Average Price per Share |
|---|---|---|
| Authorized to issue: | 4,500 | |
| Reserved for future issuance: | | |
| Fiscal year ending March 29, 2015 | 1,346 | |
| Fiscal year ending March 30, 2014 | 1,372 | |
| Fiscal year ending March 31, 2013 | 1,392 | |
| Issued: | | |
| Fiscal year ending March 29, 2015 | 26 | $ 10.01 |
| Fiscal year ending March 30, 2014 | 20 | 11.38 |
| Fiscal year ending March 31, 2013 | 26 | 8.38 |

**Equity Incentive Plans**

At the annual meeting of stockholders on September 18, 2014 (the "Annual Meeting"), our stockholders approved the Exar Corporation 2014 Equity Incentive Plan ("2014 Plan"). The 2014 Plan authorizes the issuance of stock options, stock appreciation rights, restricted stock, stock bonuses and other forms of awards granted or denominated in common stock or units of common stock, as well as cash bonus awards.

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

The maximum number of shares of our common stock that may be issued or transferred pursuant to awards under the 2014 Plan equals the sum of: (1) 5,170,000 shares, plus (2) the number of any shares subject to stock options granted under the 2006 Plan and the Sipex 2006 Plan and outstanding as of the date of the Annual Meeting which expire, or for any reason are cancelled or terminated, after the date of the Annual Meeting without being exercised, plus (3) the number of any shares subject to restricted stock and restricted stock unit awards granted under the 2006 Plan and the Sipex 2006 Plan that are outstanding and unvested as of the date of the Annual Meeting which are forfeited, terminated, cancelled, or otherwise reacquired after the date of the Annual Meeting without having become vested. Awards other than a stock option or stock appreciation right granted under the 2014 Plan are counted against authorized shares available for future issuance on a basis of two shares for each share subject to the award. As of March 29, 2015, there were approximately 4.9 million shares available for future grant under the 2014 Plan.

The following table summarizes information about our stock options outstanding at March 29, 2015:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding As of March 29, 2015 | Weighted Average Remaining Contractual Terms (in years) | Weighted Average Exercise Price per Share | Number Exercisable As of March 29, 2015 | Weighted Average Exercise Price per Share |
| $1.57 - $6.43 | 1,951,070 | 3.32 | $ 6.12 | 1,493,854 | $ 6.04 |
| 6.60 - 8.51 | 1,693,928 | 4.29 | 7.85 | 909,929 | 7.79 |
| 8.57 - 9.55 | 1,583,739 | 5.95 | 9.22 | 361,184 | 9.15 |
| 9.57 - 11.64 | 1,594,345 | 5.86 | 10.55 | 358,156 | 10.73 |
| 11.79 - 13.93 | 786,540 | 5.67 | 12.82 | 195,320 | 13.15 |
| Total | 7,609,622 | 4.86 | 8.77 | 3,318,443 | 7.78 |

***Stock Option Activities***

A summary of stock option transactions during the periods indicated below for all stock option plans was as follows:

| | Outstanding Options / Quantity | Weighted Average Exercise Price per Share | Weighted Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (in thousands) | In-the-money Options Vested and Exercisable (in thousands) |
|---|---|---|---|---|---|
| Balance at April 1, 2012 | 6,345,307 | $ 7.23 | 4.67 | $ 9,474 | 1,193 |
| Granted | 2,540,010 | 8.32 | | | |
| Exercised | (875,459) | 6.92 | | | |
| Cancelled | (903,781) | 9.67 | | | |
| Forfeited | (893,744) | 6.41 | | | |
| Balance at March 31, 2013 | 6,212,333 | $ 7.48 | 5.04 | $ 19,199 | 1,481 |
| Granted | 2,482,650 | 11.89 | | | |
| Exercised | (784,864) | 7.14 | | | |
| Cancelled | (10,834) | 10.92 | | | |
| Forfeited | (685,437) | 8.02 | | | |
| Balance at March 30, 2014 | 7,213,848 | $ 8.98 | 5.02 | $ 21,301 | 2,170 |
| Granted | 2,624,778 | 8.70 | | | |
| Exercised | (864,222) | 7.05 | | | |
| Cancelled | (291,769) | 12.36 | | | |
| Forfeited | (1,073,013) | 10.45 | | | |
| Balance at March 29, 2015 | 7,609,622 | $ 8.77 | 4.86 | $ 14,377 | 2,850 |
| Vested and expected to vest, March 29, 2015 | 7,114,744 | $ 8.69 | 4.81 | $ 13,941 | |
| Vested and exercisable, March 29, 2015 | 3,318,443 | $ 7.78 | 3.96 | $ 9,100 | |

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 $10.30, $11.71 and $10.50 as of March 29, 2015, March 30, 2014 and March 31, 2013, respectively. These are the values which would have been received by option holders if all option holders exercised their options and sold the underlying shares on that date.

In January 2012, we granted 480,000 performance-based stock options to our CEO. The options are scheduled to vest in four equal annual installments at the end of fiscal years 2013 through 2016 if certain predetermined financial measures are met. If the financial measures are not met, each installment will be rolled over to the subsequent fiscal year. In January 2014, we granted 140,000 performance-based stock options to our CEO. The options are scheduled to vest at the end of fiscal year 2017 if certain predetermined financial measures are met. We recorded $338,000, $260,000 and $260,000 of compensation expense for these options in fiscal years 2015, 2014 and 2013, respectively. The assumptions used to value the options are presented below under "Valuation Assumptions."

Options exercised for the fiscal years ended on the dates indicated below were as follows (in thousands):

| | March 29, 2015 | March 30, 2014 | March 31, 2013 |
|---|---|---|---|
| Intrinsic value of options exercised | $ 2,543 | $ 3,887 | $ 1,443 |
| Cash received related to option exercises | 6,095 | 9,493 | 6,059 |
| Tax benefit recorded | 1,655 | 6,669 | 1,927 |

***RSUs***

We issue RSUs to employees and non-employee directors that are generally subject to vesting requirements. RSUs generally vest on the first or third anniversary date from the grant date. Prior to vesting, RSUs do not have dividend equivalent rights, do not have voting rights and the shares underlying the RSUs are not considered issued and outstanding. Shares are issued on the date the RSUs vest.

A summary of RSU transactions during the periods indicated for all stock incentive plans is as follows:

| | Shares | Weighted Average Grant-Date Fair Value | Weighted Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|---|
| Unvested at April 1, 2012 | 604,655 | $ 7.13 | 2.38 | $ 5,079 |
| Granted | 331,894 | 8.40 | | |
| Issued and released | (125,095) | 7.10 | | |
| Forfeited | (79,250) | 6.96 | | |
| Unvested at March 31, 2013 | 732,204 | $ 7.73 | 1.72 | $ 7,688 |
| Granted | 828,995 | 13.06 | | |
| Issued and released | (346,407) | 9.38 | | |
| Forfeited | (37,666) | 9.52 | | |
| Unvested at March 30, 2014 | 1,177,126 | $ 10.94 | 1.62 | $ 13,784 |
| Granted | 509,370 | 9.34 | | |
| Issued and released | (414,242) | 10.28 | | |
| Forfeited | (199,329) | 11.87 | | |
| Unvested at March 29, 2015 | 1,072,925 | $ 10.26 | 1.50 | $ 11,051 |
| Vested and expected to vest, March 29, 2015 | 829,673 | | 1.42 | $ 8,546 |

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

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

In March 2012, we granted 300,000 performance-based RSUs (“PRSUs”) to our CEO. The PRSUs are scheduled to start vesting in three equal installments at the end of each fiscal year 2013 through 2015 with three year vesting periods if certain predetermined financial measures are met. If the financial measures are not met for a particular fiscal year, the installment for that fiscal year will be forfeited at the end of its respective fiscal year. In fiscal years 2015, 2014 and 2013, we recorded $1.2 million, $0.7 million and $0.4 million compensation expense, respectively for these awards.

In April 2012, we granted 29,000 bonus RSUs to our CEO. The RSUs vested 50% on the date that is six months after the commencement of the fiscal year 2013 and 50% on the last day of fiscal year 2013. In fiscal year 2013, we recorded $250,000, of compensation expense for these awards.

In June 2012, we announced the Fiscal Year 2013 Management Incentive Program (“2013 Incentive Program”). Under this program, each participant’s award is denominated in stock and subject to achievement of certain financial performance goals and the participant’s annual Management by Objective goals for the fiscal year. In fiscal year 2013, we recorded $1.2 million of stock compensation expense related to the 2013 Incentive Program as a result of achieving performance targets at various levels.

In July 2013, as part of the acquisition of Cadeka, we agreed to pay retention bonuses to certain former Cadeka employees and the bonus will be settled in RSUs subject to fulfillment of the applicable service period. In fiscal years 2015 and 2014, we recorded $1.7 million and $1.2 million of non-cash compensation expense, respectively. The expense is reported in the other current obligations line in the consolidated balance sheet as the total amount of the bonuses is to be settled in a variable number of RSUs at the completion of the requisite service period. Such non-cash compensation expense is recorded as part of stock compensation expense in the consolidated statement of operations.

In August 2013, we announced the Fiscal Year 2014 Management Incentive Program (“2014 Incentive Program”). Under this program, each participant’s award is denominated in stock and subject to achievement of certain financial performance goals and the participant’s annual Management by Objective goals for the fiscal year. The expense is reported in the other current liabilities line in the consolidated balance sheet as the total amount of bonus is to be settled in a variable number of RSUs at the completion of the requisite service period. Such non-cash compensation expense is recorded as part of stock compensation expense in the consolidated statements of operations. Due to only partially achieving the financial performance goals and the participants’ annual Management by Objectives goals, we reversed the previously recorded stock compensation of $295,000 in the second quarter of fiscal year 2015 which resulted in a net stock compensation recovery of $290,000 for fiscal year 2015.

In the first quarter of fiscal year 2014, we granted 50,000 PRSUs to certain executives. The PRSUs began vesting in three equal installments at the end of fiscal year 2014 as certain performance measures were met. In fiscal year 2015, we recorded stock compensation net recovery of $140,000 as a result of the termination of one executive’s employment. In fiscal year 2014, we recorded stock compensation expense of $331,000 related to these PRSUs.

In October 2013, we granted 70,000 PRSUs to certain executives. The first 50% of the PRSUs are scheduled to start vesting in three equal installments at the end of fiscal year 2015 with a three-year vesting period if certain performance measures are met. The second 50% of the PRSUs are scheduled to start vesting in three equal installments at the end of fiscal year 2016 with a three-year vesting period if certain performance measures are met. We recorded net stock compensation expense of $247,000 related to these awards in fiscal year 2015. One of the executives’ employment was terminated in fiscal year 2015.

In December 2013, we granted 100,000 RSUs to our CEO. The RSUs were scheduled to vest in two equal installments at the end of fiscal years 2016 and 2017. In October 2014, the second installment of 50,000 RSUs was modified to 50,000 PRSUs. These modified PRSUs were scheduled to vest at the end of fiscal year 2017 if certain predetermined financial measures are met. For fiscal year 2015, we record $10,000 stock compensation expense related to these modified PRSUs.

In January 2014, we granted 82,500 PRSUs to certain former Stretch employees. The PRSUs were scheduled to start vesting in three equal installments at the end of fiscal year 2015 with a three-year vesting period if certain performance measures were met. In fiscal year 2015 we did not record stock compensation expense related to these PRSUs as the performance measures were deemed not met.

In August 2014, we announced the Fiscal Year 2015 Management Incentive Program (“2015 Incentive Program”). Under this program, each participant’s award is denominated in shares of our common stock and is subject to attainment of Exar’s performance goals as established by the Compensation Committee of the Board of Directors for fiscal year 2015. We recorded a stock compensation expense of $1,965,000 in fiscal year 2015 related to these awards.

In August and December 2014, we granted 88,448 PRSUs to certain former iML employees. The PRSUs are scheduled to start vesting in three equal annual installments upon achievement of certain performance measures. In fiscal year 2015, we recorded $88,000 of stock compensation expense related to these PRSUs.

In January 2015, the employment of two of our executives terminated. As part of their termination agreements, we agreed their outstanding stock awards would continue to vest during the 12 month period following termination while they provided consulting services to us and that their vested stock options would remain exercisable for 12 month after they ceased providing consulting services. We also granted total of 60,000 RSUs with a vesting period of twelve months. In addition, we granted RSUs valued at $479,000 to one of the executives which were fully vested in February 2015. We recorded stock compensation expense of $1,519,000 related to these awards in fiscal year 2015.

***Stock-Based Compensation Expenses***

***Valuation Assumptions***

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.

*Valuation Method*—we compute the fair value of stock options on the date of grant using the Black-Scholes option-pricing model, except for market based performance awards which are valued under a Monte Carlo valuation method.

*Expected Term*—we estimate the expected life of options granted based on historical exercise and post-vest cancellation patterns, which we believe are representative of future behavior.

*Volatility*—our expected volatility is based on historical data of the market closing price for our common stock as reported by NASDAQ Global Select Market ("NASDAQ") and/or New York Stock Exchange, Inc. ("NYSE") under the symbol "EXAR" and the expected term of our stock options.

*Risk-Free Interest Rate*—the risk-free interest rate assumption is based on the observed interest rate of the U.S. Treasury appropriate for the expected term of the option to be valued.

*Dividend Yield*—we do not currently pay dividends and have no plans to do so in the future. Therefore, we have assumed a dividend yield of zero.

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

| | March 29, 2015 | March 30, 2014 | March 31, 2013 |
|---|---|---|---|
| Expected term of options (years) | 4.53 – 4.70 | 4.40 – 4.49 | 4.36 |
| Risk-free interest rate | 1.1 – 1.3% | 0.6 – 1.1% | 0.5 – 0.6% |
| Expected volatility | 32 - 33% | 32 - 35% | 37 - 42% |
| Expected dividend yield | — | — | — |
| Weighted average grant date fair value | $ 2.80 | $ 3.40 | $ 2.80 |

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

| | March 29, 2015 | March 30, 2014 | March 31, 2013 |
|---|---|---|---|
| Cost of sales | $ 1,105 | $ 714 | $ 469 |
| Research and development | 2,661 | 1,974 | 789 |
| Selling, general and administrative | 9,848 | 6,164 | 3,530 |
| **Total stock-based compensation expense** | $ 13,614 | $ 8,852 | $ 4,788 |

The amount of stock-based compensation cost capitalized in inventory was immaterial at each of the fiscal years presented.

***Unrecognized Stock-based Compensation Expense***

The following table summarizes unrecognized stock-based compensation expense related to stock options and RSUs for the fiscal years ending on the date indicated below as follows:

| | March 29, 2015 | | March 30, 2014 | | March 31, 2013 | |
|---|---|---|---|---|---|---|
| | Amount (in thousands) | Weighted Average Remaining Recognition Period (in years) | Amount (in thousands) | Weighted Average Remaining Recognition Period (in years) | Amount (in thousands) | Weighted Average Remaining Recognition Period (in years) |
| Options | $ 8,579 | 2.3 | $ 9,958 | 2.7 | $ 6,269 | 2.8 |
| Performance Options | 380 | 1.9 | 242 | 2.2 | 502 | 2.6 |
| RSUs | 3,568 | 2.3 | 5,970 | 2.2 | 1,557 | 2.5 |
| PRSUs | 1,751 | 2.1 | 3,047 | 2.5 | 1,814 | 3.4 |
| **Total Stock-based compensation expense** | $ 14,278 | | $ 19,217 | | $ 10,142 | |

## NOTE 15. LEASE FINANCING OBLIGATION

We have acquired engineering design tools ("Design Tools") under capital leases. We acquired Design Tools of $6.8 million in January 2015 under two three-year licenses with prepayment of $1 million, $0.1 million in January 2015 under a two-year license, $4.4 million in October 2014 under a three-year license with a prepayment of $1.5 million for the first year license, $0.9 million in July 2012 under a three-year license, $4.5 million in December 2011 under a three-year license and $5.8 million in October 2011 under a three-year license all of which were accounted for as capital leases and recorded in the property, plant and equipment, net line item in the consolidated balance sheets. The obligations related to the Design Tools were included in other current liabilities and long-term lease financing obligations in our consolidated balance sheets as of March 29, 2015 and March 30, 2014, respectively. The effective interest rates for the design tools range from 2.0% to 7.25%.

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

| | Fiscal Years Ended | | |
|---|---|---|---|
| | **March 29, 2015** | **March 30, 2014** | **March 31, 2013** |
| Amortization expense | $ 3,586 | $ 3,294 | $ 3,523 |

Future minimum lease and sublease income payments for the lease financing obligations as of March 29, 2015, are as follows (in thousands):

**Lease financing**

| **Fiscal Years** | **Design tools** |
|---|---|
| 2016 | $ 4,014 |
| 2017 | 3,961 |
| 2018 | 1,355 |
| Total minimum lease payments | 9,330 |
| Less: amount representing interest | 427 |
| Present value of future minimum lease payments | 8,903 |
| Less: short-term lease financing obligations | 3,834 |
| **Long-term lease financing obligations** | $ 5,069 |

Interest expense for the design tools lease financing obligations for the periods indicated were as follow (in thousands):

| | Fiscal Years Ended | | |
|---|---|---|---|
| | **March 29, 2015** | **March 30, 2014** | **March 31, 2013** |
| Interest expense – design tools | $ 165 | $ 155 | $ 143 |

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

| | Fiscal Years Ended | | |
|---|---|---|---|
| | **March 29, 2015** | **March 30, 2014** | **March 31, 2013** |
| Rent expense | $ 1,764 | $ 1,289 | $ 616 |

Our future minimum lease payments for the lease operating obligations, which all expire prior to 2019, as of March 29, 2015 are as follows (in thousands):

**Operating lease**

| Fiscal Years | Facilities |
|---|---|
| 2016 | $ 635 |
| 2017 | 221 |
| 2018 | 31 |
| 2019 | 3 |
| **Total future minimum lease payments** | $ 890 |

## NOTE 16. COMMITMENTS AND CONTINGENCIES

In early 2012, we received correspondences from the California Department of Toxic Substance Control ("DTSC") regarding its ongoing investigation of hazardous wastes and hazardous waste constituents at a former regulated treatment facility in San Jose, California. In 1985, MPSI made two separate permitted hazmat deliveries to a licensed and regulated site for treatment. DTSC has requested that former/current property owners and companies, currently in excess of 50, that had hazardous waste treated at the site participate in further site assessment and limited remediation activities. We have entered into various agreements with other named generators, former property owners and DTSC limited to the investigation of the sites' condition and evaluation, and selection of appropriate remedial measures. The designated environmental consulting firm has prepared and submitted to DTSC a site profile and is currently engaged in further study. Given that this matter is under investigation and discussions are ongoing with respect to various related considerations, we are unable to ascertain our exposure, if any, or estimate a reasonably possible range of loss. In the opinion of management, after consulting with legal counsel, and taking into account insurance coverage, any ultimate liability related to current outstanding claims and lawsuits, individually or in the aggregate, is not expected to have a material adverse effect on our financial statements, as a whole.

In a letter dated March 27, 2012, Exar was notified by the Alameda County Water District ("ACWD") of the recent detection of volatile organic compounds at a site adjacent to a facility that was previously owned and occupied by Sipex. The letter was also addressed to prior and current property owners and tenants (collectively "Property Owners"). ACWD requested that the Property Owners carry out further site investigation activities to determine if the detected compounds are emanating from the site or simply flowing under it. In June 2012, the Property Owners filed with ACWD a report of its investigation/characterization activities and analytical data obtained. Accumulated data suggests that compounds of concern in groundwater appear to be from an offsite source. ACWD is investigating alternative upgradient sites. Given that this investigation is ongoing and Exar has not received any recent communications from ACWD, we are unable to ascertain our exposure, if any, or estimate a reasonably possible range of loss. In the opinion of management, after consulting with legal counsel, and taking into account insurance coverage, any ultimate liability related to current outstanding claims and lawsuits, individually or in the aggregate, is not expected to have a material adverse effect on our financial statements, as a whole.

We warrant all custom products and application specific products, including cards and boards, against defects in materials and workmanship for a period of 12 months, and occasionally we may provide an extended warranty from the delivery date. We warrant all of our standard products against defects in materials and workmanship for a period of 90 days from the date of delivery. Reserve requirements are recorded in the period of sale and are based on an assessment of the products sold with warranty, historical warranty costs incurred and customer/product specific circumstances. Our liability is generally limited, at our option, to replacing, repairing, or issuing a credit (if it has been paid for). Our warranty does not cover damage which results from accident, misuse, abuse, improper line voltage, fire, flood, lightning or other damage resulting from modifications, repairs or alterations performed other than by us, or resulting from failure to comply with our written operating and maintenance instructions.

Warranty expense has historically been immaterial for our products. A warranty liability of $1.4 million was established during fiscal year 2014 for the return of certain older generation data compression products shipped in prior years. This liability has been fully fulfilled as of March 29, 2015 and in February 2015, we received $0.5 million reimbursement from our insurance company. In June 2014, we assumed $0.4 million warranty liability from our acquisition of iML.

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

| | March 29, 2015 | March 30, 2014 |
|---|---|---|
| Beginning balance | $ 1,074 | $ 50 |
| Provisions for warranties issued | 458 | 1,480 |
| Settlements/adjustments | (1,250) | (456) |
| **Ending balance** | $ 282 | $ 1,074 |

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

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

**NOTE 17. LEGAL PROCEEDINGS**

In fiscal year 2014, two former employees of Exar's French subsidiary asserted claims in the French Labor Courts against that subsidiary for alleged unfair dismissal. We believe that the former employees were terminated in accordance with the requirements of French law and that the former employees' claims are not supported by evidence. On December 22, 2014, Exar and one former employee entered into a settlement agreement resolving all claims made in the litigation. The French Labor Court in the other matter rendered a judgment in favor of the other employee on January 21, 2015 that we intend to appeal. We continue to dispute the claims and intend to continue to vigorously protect our interests.

In April 2015, Phenix, LLC ("Phenix") filed a complaint against us and iML for patent infringement in the United States District Court for the Eastern District of Texas, alleging that at least the iML 7990 and 7991 products infringe one of its patents. See *Note 22 - "Subsequent Event"* for detail.

While there can be no assurance of favorable outcomes, we do not believe that the ultimate outcome of these actions, individually or in the aggregate, will have a material adverse effect on our financial position, results of operations or cash flows.

**NOTE 18. INCOME TAXES**

The following table presents domestic and foreign components income/ (loss) before income taxes (in thousands):

| | March 29, 2015 | March 30, 2014 | March 31, 2013 |
|---|---|---|---|
| United States | $ (50,428) | $ (2,370) | $ 1,693 |
| Foreign | 6,310 | (307) | — |
| (Loss)/income before income tax | $ (44,118) | $ (2,677) | $ 1,693 |

The components of the provision for (benefit from) income taxes as of the dates indicated below were as follows (in thousands):

| | March 29, 2015 | March 30, 2014 | March 31, 2013 |
|---|---|---|---|
| Current: | | | |
| Federal | $ 828 | $ (1,350) | $ (1,255) |
| State | 11 | (93) | (73) |
| Foreign | 404 | (81) | 114 |
| Total current | $ 1,243 | $ (1,524) | $ (1,214) |
| Deferred: | | | |
| Federal | $ 39 | $ (6,807) | $ 23 |
| State | — | (147) | 2 |
| Foreign | (393) | — | — |
| Total deferred | $ (354) | $ (6,954) | $ 25 |
| **Total provision for (benefit from) income taxes** | $ 889 | $ (8,478) | $ (1,189) |

Foreign income/ (loss) included in consolidated pre-tax income for the periods indicated below were as follows (in thousands):

| | Fiscal Years Ended | | |
|---|---|---|---|
| | March 29, 2015 | March 30, 2014 | March 31, 2013 |
| Foreign income/(loss) | $ 6,310 | $ (307) | $ — |

Exar records U.S. income taxes on the undistributed earnings of foreign subsidiaries unless the subsidiaries' earnings are considered indefinitely reinvested outside the U.S. We plan to make a one-time $45.0 million repatriation in fiscal year 2016, and as of March 29, 2015, we recognized a $8.2 million deferred tax liability for the future income associated with this repatriation, net of previously taxed amounts. There are minimal US federal and state taxes as a result of this one time repatriation due to the availability of net operating loss carryovers. As of March 29, 2015, the cumulative amount of undistributed earnings considered indefinitely reinvested was $49.6 million. Despite the one-time planned repatriation, no incremental deferred tax liability has been recognized on the basis difference created by these earnings since it is our intention to utilize those earnings in our foreign operations. Upon distribution of those earnings in the form of a dividend or otherwise, we would be subject to both United States income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to various foreign countries. Computation of the potential tax impact of the unremitted earnings is not practical.

Significant components of our net deferred taxes are as follows as of the dates indicated (in thousands):

| | March 29, 2015 | March 30, 2014 |
|---|---|---|
| Deferred tax assets: | | |
| Reserves and expenses not currently deductible | $ 10,328 | $ 7,973 |
| Net operating loss carryforwards | 121,948 | 123,826 |
| Tax credits | 30,214 | 27,259 |
| Losses on investments | 1,032 | 1,832 |
| Unrealized investment loss | — | 80 |
| Intangible assets | 8,406 | 6,838 |
| Deferred margin | 3,293 | 3,968 |
| Depreciation | — | 642 |
| Total deferred tax assets | 175,221 | 172,418 |
| Deferred tax liabilities: | | |
| Depreciation | (915) | — |
| Non-goodwill intangibles | (3,159) | (6,560) |
| Foreign earnings | (8,164) | — |
| Total deferred tax liabilities | (12,238) | (6,560) |
| Valuation allowance | (163,129) | (165,924) |
| **Net deferred tax liabilities** | $ (146) | $ (66) |

The valuation allowance decreased $2.8 million, $8.0 million and $6.7 million in fiscal years 2015, 2014 and 2013, respectively. The change in fiscal year 2015 was primarily due to increase of deferred tax liabilities related to foreign earnings.

Reconciliations of the income tax provision at the statutory rate to our provision for (benefit from) income tax are as follows as of the dates indicated (in thousands):

| | March 29, 2015 | March 30, 2014 | March 31, 2013 |
|---|---|---|---|
| Income tax benefit at statutory rate | $ (15,441) | $ (937) | $ 593 |
| State income taxes, net of federal tax benefit | (64) | (1) | 60 |
| Deferred tax assets not benefited | 9,052 | (1,972) | (378) |
| Tax credits | (1,182) | (757) | (539) |
| Stock-based compensation | 435 | (427) | 258 |
| Foreign rate differential | (1,927) | 156 | 148 |
| Prior year tax expense true-up | — | (10) | 11 |
| Fair value adjustment | (1,527) | (3,732) | — |
| Investment in US property | 8,840 | 45 | 54 |
| OCI tax effect clearance | 828 | — | — |
| Acquisition cost | 2,092 | 293 | — |
| Others, net | (217) | (1,136) | (1,396) |
| **Provision for (benefit from) income taxes** | $ 889 | $ (8,478) | $ (1,189) |

As of March 29, 2015, our federal, state and Canada net operating loss carryforwards for income tax purposes were as follow (in thousands):

| | |
|---|---|
| Federal net operating loss carryforwards | $ 323,751 |
| State net operating loss carryforwards | $ 111,084 |
| Canada net operating loss carryforwards | $ 23,785 |

If not utilized, some of the federal net operating loss carryovers will begin expiring in fiscal year 2019, while the state net operating losses will begin to expire in fiscal year 2016. The Canadian net operating loss carryovers will begin expiring in fiscal year 2022, if not utilized.

As of March 29, 2015, our federal, state and Canada tax credit carryforwards, net of reserves, were as follows (in thousands):

| | |
|---|---|
| Federal tax credit carryforwards | $ 10,453 |
| State tax credit carryforwards | $ 20,165 |
| Canada tax credit carryforwards | $ 5,283 |

Federal tax credits will begin to expire in fiscal year 2018. State tax credits are carried forward indefinitely. The Canadian tax credits will begin to expire in fiscal year 2018.

Utilization of these federal and state net operating loss and tax credit carryforwards may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended, and similar state provisions.

We have evaluated our deferred tax assets and concluded that a valuation allowance is required for that portion of the total deferred tax assets that are not considered more likely than not to be realized in future periods. To the extent that the deferred tax assets with a valuation allowance become realizable in future periods, we will have the ability, subject to carryforward limitations, to benefit from these amounts. Approximately $8.4 million of these deferred tax assets pertain to certain net operating loss and credit carryforwards that resulted from the exercise of employee stock options. When recognized, the tax benefit of these carryforwards is accounted for as a credit to additional paid-in capital rather than a reduction of the income tax provision.

**Uncertain Income Tax Benefits**

A reconciliation of the beginning and ending amount of the unrecognized tax benefits during the tax year ended March 29, 2015 is as follows (in thousands):

| | | Amount |
|---|---|---|
| Unrecognized tax benefits as of April 1, 2012 | | 16,820 |
| Gross decrease related to prior year tax positions | | (271) |
| Gross increase related to current year tax positions | | 292 |
| Lapses in statute of limitation | | (1,376) |
| Unrecognized tax benefits as of March 31, 2013 | | 15,465 |
| Gross increase related to prior year tax positions | | 92 |
| Gross increase related to current year tax positions | | 487 |
| Lapses in statute of limitation | | (1,880) |
| Unrecognized tax benefits as of March 30, 2014 | $ | 14,164 |
| Gross increase related to prior year tax positions | | 252 |
| Gross increase related to current year tax positions | | 3,305 |
| Lapses in statute of limitation | | (85) |
| Unrecognized tax benefits as of March 29, 2015 | $ | 17,636 |

Of the total gross unrecognized tax benefits of $17.6 million as of March 29, 2015, $14.7 million, if recognized, would impact the effective tax rate before consideration of the valuation allowance.

The total unrecognized gross tax benefits were as follows as of the dates indicated (in thousands):

| | | March 29, 2015 | | March 30, 2014 |
|---|---|---|---|---|
| Unrecognized gross tax benefits | $ | 17,636 | $ | 14,164 |
| Less: amount used to reduce deferred tax assets | | 13,285 | | 13,370 |
| Net income tax payable(1) | $ | 4,351 | $ | 794 |

(1) Included in other non-current obligations line item in consolidated balance sheet.

We believe that it is reasonably possible that the amount of gross unrecognized tax benefits related to the resolution of income tax matters could be reduced by approximately $1.4 million during the next 12 months as the statutes of limitations expire, which would decrease the provision for income taxes and increase our net income.

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

| | | March 29, 2015 | | March 30, 2014 |
|---|---|---|---|---|
| Accrued interest and penalties | $ | 1,187 | $ | 83 |

Our major tax jurisdictions are the United States federal and various states, Canada, China, Hong Kong and certain other foreign jurisdictions. The fiscal years 2004 through 2013 remain open and subject to examinations by the appropriate governmental agencies in the United States and certain of our foreign jurisdictions.

On December 19, 2014, the President signed into law The Tax Increase Prevention Act of 2014, which retroactively extends more than 50 expired tax provisions through 2014. Among the extended provisions is the Sec. 41 research credit for qualified research expenditures incurred through the end of 2014. The benefit of the reinstated credit did not impact the income statement in the period of enactment, which was the third quarter of fiscal year 2015, as the research and development credit carryforwards are offset by a full valuation allowance.

*ASU No. 2013-11* – US GAAP previously did not include explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. On a jurisdictional basis, Accounting Standard Update ("ASU") No. 2013-11 generally requires an unrecognized tax benefit to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Exar has properly applied this guidance to its required SEC disclosures. The adoption of this guidance did not have any material impact on our financial position, results of operations or cash flows.

## NOTE 19. SEGMENT AND GEOGRAPHIC INFORMATION

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or group, in deciding how to allocate resources and in assessing performance.

Our chief operating decision maker, the chief executive officer, reviews financial information presented on a consolidated basis for purposes of regularly making operating decisions and assessing financial performance. Accordingly, Exar considers itself to be in one reportable segment, which is comprised of one operating segment. We design, develop and market high performance analog mixed-signal integrated circuits and advanced sub-system solutions for the Industrial and Embedded Systems, High-End Consumer and Infrastructure markets.

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

| | Fiscal Years Ended | | |
|---|---|---|---|
| | March 29, 2015 | March 30, 2014 | March 31, 2013 |
| Industrial & Embedded Systems | $ 79,050 | $ 72,458 | $ 63,396 |
| High-End Consumer | 51,897 | 462 | 928 |
| Infrastructure | 31,103 | 52,402 | 57,702 |
| **Total net sales** | $ 162,050 | $ 125,322 | $ 122,026 |

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

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

| | Fiscal Years Ended | | |
|---|---|---|---|
| | March 29, 2015 | March 30, 2014 | March 31, 2013 |
| China | $ 62,085 | $ 43,537 | $ 41,118 |
| United States | 23,479 | 37,079 | 32,322 |
| Taiwan | 17,955 | 3,397 | 4,347 |
| Korea | 15,833 | 3,337 | 3,346 |
| Singapore | 15,361 | 13,397 | 13,827 |
| Germany | 11,257 | 11,270 | 11,692 |
| Rest of world | 16,080 | 13,305 | 15,374 |
| **Total net sales** | $ 162,050 | $ 125,322 | $ 122,026 |

Substantially all of our long-lived assets at March 29, 2015 and March 30, 2014 were located in the United States.

The following distributors accounted for 10% or more of our net sales in the fiscal years indicated below:

| | Fiscal Years Ended | | |
|---|---|---|---|
| | March 29, 2015 | March 30, 2014 | March 31, 2013 |
| Distributor A | 22% | 27% | 30% |
| Distributor B | *% | 21% | 11% |
| Distributor C | *% | 12% | 10% |

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

No other distributor or customer accounted for 10% or more of the net sales in fiscal years 2015, 2014 and 2013, respectively.

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

| | March 29, 2015 | March 30, 2014 |
|---|---|---|
| Distributor E | 12% | * |
| Distributor B | 11% | 17% |
| Distributor D | 10% | 14% |
| Customer D | 10% | * |
| Distributor A | * | 16% |
| Distributor C | * | 12% |

* Net accounts receivable for this distributor for this period were less than 10% of our net accounts receivables.

No other distributor or customer accounted for 10% or more of the net accounts receivable as of March 29, 2015 and March 30, 2014, respectively.

### NOTE 20. ALLOWANCES FOR SALES RETURNS AND DOUBTFUL ACCOUNTS

We had the following activities for the allowance for sales returns and allowance for doubtful accounts as the dates indicated (in thousands):

| Classification | Balance at Beginning of Year | Additions | Utilizations (1) | Balance at End of Year |
|---|---|---|---|---|
| **Allowance for sales returns:** | | | | |
| Year ended March 29, 2015 | $ 1,674 | $ 22,177 | $ 22,354 | $ 1,496 |
| Year ended March 30, 2014 | 1,084 | 17,004 | 16,414 | 1,674 |
| Year ended March 31, 2013 | 1,429 | 15,176 | 15,521 | 1,084 |
| **Allowance for doubtful accounts:** | | | | |
| Year ended March 29, 2015 | 111 | 501 | — | 612 |
| Year ended March 30, 2014 | 206 | (25) | 70 | 111 |
| Year ended March 31, 2013 | 167 | 39 | — | 206 |

(1) Utilization amounts within allowance for sales returns reflect credits issued to distributors for stock rotations and volume discounts.

### NOTE 21. SUPPLEMENTARY QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table contains selected unaudited quarterly financial data for fiscal years 2015 and 2014. In the opinion of management, this unaudited information has been prepared on the same basis as the audited information and includes all adjustments, consisting only of normal and recurring adjustments necessary to state fairly the information set forth therein. Results for a given quarter are not necessarily indicative of results for any subsequent quarter (in thousands, except per share data). Net income (loss) per share for the four quarters of each fiscal year may not sum to the total for the fiscal year, because of the different number of shares outstanding during each period.

| | Fiscal Year 2015 | | | | Fiscal Year 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| Classification | Mar. 29, 2015 | Dec. 28, 2014 | Sep. 28, 2014 | Jun. 29, 2014 | Mar. 30, 2014 | Dec. 29, 2013 | Sep. 29, 2013 | Jun. 30, 2013 |
| **Consolidated Statement of Operations Data:** | | | | | | | | |
| Net sales by end market: | | | | | | | | |
| Industrial & Embedded Systems | $ 20,021 | $ 20,506 | $ 19,656 | $ 18,867 | $ 19,588 | $ 18,429 | $ 17,943 | $ 16,498 |
| High-End Consumer | 16,072 | 16,202 | 16,199 | 3,424 | 43 | 68 | 105 | 246 |
| Infrastructure | 7,764 | 7,607 | 7,304 | 8,428 | 8,356 | 12,193 | 15,970 | 15,883 |
| Net sales | $ 43,857 | $ 44,315 | $ 43,159 | $ 30,719 | $ 27,987 | $ 30,690 | $ 34,018 | $ 32,627 |
| Gross profit | 17,948 | 16,890 | 4,132 | 10,956 | 8,422 | 12,826 | 13,929 | 15,477 |
| Income (loss) from operations | (2,346) | (6,535) | (22,830) | (11,352) | (311) | (3,321) | (616) | 547 |
| Net income (loss) | (2,914) | (6,599) | (23,352) | (12,105) | 147 | (1,634) | 6,482 | 806 |
| **Net income (loss) per share to common stockholders:** | | | | | | | | |
| Basic | $ (0.06) | $ (0.14) | $ (0.50) | $ (0.26) | $ 0.00 | $ (0.03) | $ 0.14 | $ 0.02 |
| Diluted | $ (0.06) | $ (0.14) | $ (0.50) | $ (0.26) | $ 0.00 | $ (0.03) | $ 0.13 | $ 0.02 |
| **Shares used in the computation of net income (loss) per share:** | | | | | | | | |
| Basic | 47,516 | 47,119 | 47,139 | 47,236 | 47,328 | 47,529 | 47,496 | 46,805 |
| Diluted | 47,516 | 47,119 | 47,139 | 47,236 | 48,778 | 47,529 | 49,150 | 48,085 |

In the first quarter of fiscal year 2015, we acquired 92% of the shares of iML in a tender offer. In the third quarter of fiscal year 2015, after completing a second-step merger, we paid $18.9 million to settle the acquisition of the remaining 8% of the shares and vested options exercised subsequent to June 3, 2014. Consistent with the payments for the tender offer, the payments associated with the second-step merger were classified as a component of investing activities in the Statement of Cash Flows for the nine month period ended December 28, 2014. However, since we maintained control of the subsidiary when the payments were made for the second-step merger, these payments should have been classified as part of financing activities. For the nine month period ended December 28, 2014, cash used by investing activities and cash used in financing should have been $78.0 million and $24.0 million respectively, instead of amounts previously reported. This misclassification on the Statement of Cash Flows had no impact on the result of operations, the balance sheet, or stockholders' equity for any period. Additionally, we evaluated the materiality of this change from a qualitative perspective and have concluded that the impact of the misclassification was not material to the nine month period ended December 28, 2014.

**NOTE 22. SUBSEQUENT EVENT**

In April 2015, Phenix, LLC ("Phenix") filed a complaint against us and iML for patent infringement in the United States District Court for the Eastern District of Texas, alleging that at least the iML 7990, 7991 and all reasonably similar products infringe one of its patents. Phenix seeks unspecified damages and an injunction prohibiting iML and us from any future infringement of its patent. We cannot currently estimate a reasonably possible range of loss for this action, if any, because the matter has not advanced to a stage where we could make any such estimate. We believe the claims made by Phenix in this matter are without merit and we intend to vigorously defend the action.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

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

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

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 Annual Report. This Evaluation was performed under the supervision and with the participation of management, including our CEO, as principal executive officer, and CFO, as principal financial officer.

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

Based on the Evaluation, our CEO and CFO have concluded that our Disclosure Controls were effective at a reasonable assurance level as of the end of fiscal year 2015.

### 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.

### Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management conducted an assessment of our internal control over financial reporting as of March 29, 2015 based on the framework established by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework (2013)*. Based on this assessment, management concluded that, as of March 29, 2015, our internal control over financial reporting was effective.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance, and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

The effectiveness of our internal control over financial reporting as of March 29, 2015 has been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in their report included in this Annual Report.

**Changes in Internal Control over Financial Reporting**

There was no change in our internal control over financial reporting that occurred during the fourth quarter of fiscal year 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## ITEM 9B. OTHER INFORMATION

None.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated by reference from the information set forth under the captions "Election of Directors," "Corporate Governance and Board Matters," "Executive Compensation Matters" and "Section 16(a) Beneficial Ownership Reporting Compliance" in our Definitive Proxy Statement in connection with our 2015 Annual Meeting of Stockholders ("2015 Definitive Proxy Statement") which will be filed with the SEC Commission no later than 120 days after March 29, 2015.

**Executive Officers**

A listing of executive officers of Exar and certain other information required by Item 10 with respect to our executive officers is set forth under the caption "Executive Officers of the Registrant" in *Part I, Item 1* of this Report and is incorporated herein by reference.

**Code of Ethics**

We have adopted a Code of Ethics for Principal Executives, Executive Management and Senior Financial Officers, a Code of Business Conduct and Ethics and a Financial Integrity Compliance Policy. These documents can be found on our website: www.exar.com. We will post any amendments to the codes and policy, as well as any waivers that are required to be disclosed by the rules of either the SEC or the NYSE on our website, or by filing a Current Report on Form 8-K. Hard copies can be obtained free of charge by submitting a written request to:

Exar Corporation
48720 Kato Road
Fremont, California 94538
Attn: Investor Relations, M/S 210

### ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is set forth under the captions "Executive Compensation" and "Compensation Committee Report on Executive Compensation" in our 2015 Definitive Proxy Statement and is incorporated herein by reference.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is set forth under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" in our 2015 Definitive Proxy Statement and is hereby incorporated by reference.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is set forth under the captions "Certain Relationships and Related Transactions" and "Corporate Governance and Board Matters" in our 2015 Definitive Proxy Statement and is hereby incorporated by reference.

### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is set forth under the caption "Ratification of Appointment of Independent Registered Public Accounting Firm" in our 2015 Definitive Proxy Statement and is hereby incorporated by reference.

## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Annual Report on Form 10-K:

(1) All Financial Statements. The financial statements of Exar Corporation are included herein as required in *Part II, Item 8—"Financial Statements and Supplementary Data"* of this Annual Report. See Index to Financial Statements on page 48.

(2) Financial Statement Schedules. See *"Notes to Consolidated Financial Statements, Note 20—Allowance for Sales Returns and Doubtful Accounts*." Schedules not listed have been omitted because information required to be set forth therein is not applicable or is shown in the financial statements or notes thereto.

(3) Exhibits. See Part IV, Item 15(b) below.

(b) The exhibits listed in the Exhibit Index, which follows the signature page to this Annual Report, are filed or incorporated by reference into this Annual Report.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

**EXAR CORPORATION**

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

Date: June 5, 2015

**KNOW ALL PERSONS BY THESE PRESENTS**, that each person whose signature appears below constitutes and appoints Louis DiNardo and Ryan A. Benton, and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution and re-substitution, for him and in his name, place, and stead, in any and all capacities, to sign any and all amendments to this Report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming that all said attorneys-in-fact and agents, or any of them or their or his substitute or substituted, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ LOUIS DINARDO<br>(Louis DiNardo) | President, Chief Executive Officer and Director<br>(Principal Executive Officer) | June 5, 2015 |
| /s/ RYAN A. BENTON<br>(Ryan A. Benton) | Senior Vice President and Chief Financial Officer<br>(Principal Financial and Accounting Officer) | June 5, 2015 |
| /s/ RICHARD L. LEZA<br>(Richard L. Leza) | Chairman of the Board | June 5, 2015 |
| /s/ BEHROOZ ABDI<br>(Behrooz Abdi) | Director | June 5, 2015 |
| /s/ DR. IZAK BENCUYA<br>(Dr. Izak Bencuya) | Director | June 5, 2015 |
| /s/ PIERRE GUILBAULT<br>(Pierre Guilbault) | Director | June 5, 2015 |
| /s/ BRIAN HILTON<br>(Brian Hilton) | Director | June 5, 2015 |
| /s/ GARY MEYERS<br>(Gary Meyers) | Director | June 5, 2015 |

## EXHIBIT INDEX

| Exhibit Number | Exhibit | Incorporated by Reference Form | File No. | Exhibit | Filing Date |
|---|---|---|---|---|---|
| 2.1 | Form of Merger Agreement | 8-K | 0-14225 | 2.1 | 4/30/2014 |
| 2.2 | Form of Tender Agreement | 8-K | 0-14225 | 2.2 | 4/30/2014 |
| 3.1 | Restated Certificate of Incorporation of Exar Corporation | 8-K | 0-14225 | 3.3 | 9/17/2010 |
| 3.2 | Amended and Restated Bylaws of Exar Corporation | 8-K | 0-14225 | 3.1 | 3/16/2012 |
| 10.1*+ | Employee Stock Participation Plan, as amended, and related Offering documents | 10-K | 0-14225 | 10.1 | 6/12/2006 |
| 10.2* | 2014 Equity Incentive Plan | 8-K | 0-14225 | 10.1 | 9/22/2014 |
| 10.3* | Form of Restricted Stock Unit Agreement | 10-Q | 001-36012 | 10.5 | 11/7/2014 |
| 10.4* | Form of Performance Stock Unit Agreement | 10-Q | 001-36012 | 10.6 | 11/7/2014 |
| 10.5* | Form of NQSO Agreement | 10-Q | 001-36012 | 10.7 | 11/7/2014 |
| 10.6* | Form of ISO Agreement | 10-Q | 001-36012 | 10.8 | 11/7/2014 |
| 10.7** | Form of Director Option Agreement | | | | |
| 10.8** | Form of Director RSU Agreement | | | | |
| 10.9* | 2006 Equity Incentive Plan, as amended | 8-K | 0-14225 | 10.1 | 9/17/2010 |
| 10.10* | Form of Notice of Grant of Stock Option and Terms and Conditions of Nonqualified Stock Option | 8-K | 0-14225 | 10.2 | 9/13/2006 |
| 10.11* | Form of Notice of Grant of Stock Option and Terms and Conditions of Incentive Stock Option | 8-K | 0-14225 | 10.3 | 9/13/2006 |
| 10.12* | 2006 Equity Incentive Plan Form of Director Nonqualified Stock Option Agreement | 8-K | 0-14225 | 10.6 | 9/13/2006 |
| 10.13* | 2006 Equity Incentive Plan Form Of Stock Unit Award Agreement | 10-Q | 0-14225 | 10.2 | 2/6/2009 |
| 10.14* | 2006 Equity Incentive Plan Form Of Performance Stock Unit Award Agreement | 10-Q | 0-14225 | 10.1 | 11/5/2009 |
| 10.15* | 2006 Equity Incentive Plan Form Of Director Restricted Stock Unit Award Agreement | 10-Q | 0-14225 | 10.7 | 11/4/2010 |
| 10.16* | 2006 Equity Incentive Plan Form of Non-Employee Director Option Agreement (September 2013) | 10-Q | 001-36012 | 3.4 | 11/7/2013 |
| 10.17* | 2006 Equity Incentive Plan Form of Non-Employee Director RSU Agreement (September 2013) | 10-Q | 001-36012 | 3.5 | 11/7/2013 |
| 10.18* | 2000 Equity Incentive Plan, as amended, and related forms of stock option grant and exercise | 10-K | 0-14225 | 10.9 | 6/14/2005 |

| | | | | | |
|---|---|---|---|---|---|
| 10.19* | Sipex Corporation 2006 Equity Incentive Plan | S-8 | 333-145751 | 4.1 | 8/28/2007 |
| 10.20* | Sipex Corporation Amended and Restated 2002 Nonstatutory Stock Option Plan | S-8 | 333-145751 | 4.2 | 8/28/2007 |
| 10.21* | Sipex Corporation 2000 Non-Qualified Stock Option Plan | S-8 | 333-145751 | 4.3 | 8/28/2007 |
| 10.22* | Sipex Corporation 1999 Stock Plan | S-8 | 333-145751 | 4.4 | 8/28/2007 |
| 10.23* | Sipex Corporation 1997 Stock Option Plan | S-8 | 333-145751 | 4.5 | 8/28/2007 |
| 10.24* | Fiscal Year 2014 Executive Management Incentive Program | 10-Q | 001-36012 | 10.3 | 8/6/2013 |
| 10.25* | Fiscal Year 2015 Executive Management Incentive Program | 10-Q | 001-36012 | 10.4 | 8/8/2014 |
| 10.26* | Form of Indemnity Agreement between the Company and each of the Company's directors and certain of the executive officers | 8-K | 0-14225 | 10.1 | 3/16/2012 |
| 10.27 | Distributor Agreement, dated July 1, 1997, by and between Exar Corporation and Future Electronics Incorporated. | 10-K | 0-14225 | 10.22 | 6/11/2014 |
| 10.28 | Amendment No. 3, entered October 29, 2007, to that certain Distributor Agreement, dated July 1, 1997, by and between Exar Corporation and Future Electronics Incorporated. | 10-Q | 0-14225 | 10.1 | 2/8/2008 |
| 10.29 | Amendment No. 10, entered June 19, 2012, to that certain Distributor Agreement, dated July 1, 1997, by and between Exar Corporation and Future Electronics Incorporated. | 10-K | 0-14225 | 10.24 | 6/11/2014 |
| 10.30 | Domestic Distributor Agreement, dated December 1, 2001, by and between Exar Corporation and NuHorizons, Inc. | 10-K | 0-14225 | 10.25 | 6/11/2014 |
| 10.31 | Amendment No. 4, entered October 29, 2007, to that certain Domestic Distributor Agreement, dated December 1, 2001, by and between Exar Corporation and NuHorizons, Inc. | 10-Q | 0-14225 | 10.2 | 2/8/2008 |
| 10.32* | Employment Agreement between Exar Corporation and Louis DiNardo | 8-K | 0-14225 | 10.1 | 2/6/2014 |
| 10.33* | Amendment No. 1 to Employment Agreement between the Company and Louis DiNardo, dated December 31, 2013 | 10-Q | 001-36012 | 3.3 | 2/6/2014 |
| 10.34** | Amendment No. 2 to Employment Agreement between Exar Corporation and Louis DiNardo, dated October 15, 2014 | | | | |
| 10.35* | Employment Agreement between the Company and Ryan Benton, dated September 30, 2013 | 10-Q | 001-36012 | 3.3 | 11/7/2013 |
| 10.36* | Letter Agreement Regarding Employment between the Company and Steve Bakos, dated May 21, 2012 | 10-K | 0-14225 | 10.32 | 6/11/2014 |
| 10.37 | Purchase and Sale Agreement dated July 9, 2013 between Exar Corporation and Ellis Partners LLC | 10-Q | 001-36012 | 10.2 | 8/6/2013 |

| | | | | | |
|---|---|---|---|---|---|
| 10.38* | Separation and Release Agreement between Exar Corporation and Parviz Ghaffaripour dated November 23, 2014 | 8-K | 0-14225 | 10.1 | 11/28/2014 |
| 10.39* | Termination and Release Agreement between Exar Corporation and Robert Todd Smathers dated January 1, 2015 | 10-Q | 001-36012 | 10.10 | 2/6/2015 |
| 10.40 | Bridge Credit Agreement, dated May 27, 2014 | 8-K | 0-14225 | 10.1 | 5/30/3014 |
| 10.41 | Form of Parent Agreement | 8-K | 0-14225 | 10.1 | 4/30/3015 |
| 10.42 | Form of Tender Agreement Guaranty | 8-K | 0-14225 | 10.2 | 4/30/2015 |
| 21.1** | Subsidiaries of the Company | | | | |
| 23.1** | Consent of Independent Registered Public Accounting Firm, BDO USA, LLP | | | | |
| 24.1** | Power of Attorney. Reference is made to the signature page in this Form 10-K. | | | | |
| 31.1** | Principal Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | | |
| 31.2** | Principal Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | | |
| 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 | | | | |
| 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 | | | | |
| 101.INS** | XBRL Instance Document | | | | |
| 101.SCH** | XBRL Taxonomy Extension Schema Document | | | | |
| 101.CAL** | XBRL Taxonomy Extension Calculation Linkbase Document | | | | |
| 101.DEF** | XBRL Taxonomy Extension Definition Linkbase Document | | | | |
| 101.LAB** | XBRL Taxonomy Extension Label Linkbase Document | | | | |
| 101.PRE** | XBRL Taxonomy Extension Presentation Linkbase Document | | | | |

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* Indicates management contracts or compensatory plans or arrangements filed pursuant to Item 601(b)(10) of Regulation S-K.

** Filed herewith.

*** Furnished herewith.

\+ Related forms of Stock Option Grant and Exercise filed as part of an exhibit to Exar's Annual Report on Form 10-K for fiscal year ended March 31, 2005, and incorporated herein by reference.

**Exhibit 10.7**

**EXAR CORPORATION**
**2014 EQUITY INCENTIVE PLAN**
**DIRECTOR NONQUALIFIED STOCK OPTION AGREEMENT**

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

| | |
|---|---|
| **Number of Shares of Common Stock**:[1] _______ | **Award Date:** __________________ |
| **Exercise Price per Share**:[1] $________________ | **Expiration Date:**[1,2] _____________ |

**Vesting**[1,2] **[**Subject to Section 1.2 of the Terms and Conditions of Director Nonqualified Stock Option (the "**Terms**") attached to this Option Agreement, the Option shall become vested upon the earlier to occur of (i) the fourth anniversary of the Award Date or (ii) the annual meeting of the Company's stockholders that occurs in the fourth year following such Award Date.**]**

The Option is granted under the Exar Corporation 2014 Equity Incentive Plan (the "**Plan**") and subject to the Terms attached to this Option Agreement (incorporated herein by this reference) and to the Plan. The Option has been granted to the Director in addition to, and not in lieu of, any other form of compensation otherwise payable or to be paid to the Director. Capitalized terms are defined in the Plan if not defined herein. The parties agree to the terms of the Option set forth herein. The Director acknowledges receipt of a copy of the Terms, the Plan and the Prospectus for the Plan.

**"DIRECTOR"**

______________________________________
*Signature*

______________________________________
*Print Name*

**EXAR CORPORATION**
a Delaware corporation

By:__________________________________

Print Name:___________________________

Title:________________________________

[1] Subject to adjustment under Section 7.1 of the Plan.
[2] Subject to early termination under Section 4 of the Terms and Section 7.2 of the Plan.

**TERMS AND CONDITIONS OF DIRECTOR NONQUALIFIED STOCK OPTION**

1. <u>**Vesting; Limits on Exercise; Incentive Stock Option Status**</u>.

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

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

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

- <u>Cumulative Exercisability</u>. To the extent that the Option is vested and exercisable, the Director has the right to exercise the Option (to the extent not previously exercised), and such right shall continue, until the expiration or earlier termination of the Option.
- <u>No Fractional Shares</u>. Fractional share interests shall be disregarded, but may be cumulated.
- <u>Nonqualified Stock Option</u>. The Option is a nonqualified stock option and is not, and shall not be, an incentive stock option within the meaning of Section 422 of the Code.

**2. <u>Continuance of Service Required; No Service Commitment</u>.**

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

**3. <u>Method of Exercise of Option</u>.**

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

- a written notice stating the number of shares of Common Stock to be purchased pursuant to the Option or by the completion of such other administrative exercise procedures as the Administrator may require from time to time,
- payment in full for the Exercise Price of the shares to be purchased in cash, check or by electronic funds transfer to the Company, or (subject to compliance with all applicable laws, rules, regulations and listing requirements and further subject to such rules as the Administrator may adopt as to any non-cash payment) in shares of Common Stock already owned by the Director, valued at their Fair Market Value on the exercise date;
- any written statements or agreements required pursuant to Section 8.1 of the Plan; and
- satisfaction of the tax withholding provisions of Section 8.5 of the Plan.

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

**4. <u>Early Termination of Option</u>.**

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

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

- other than as expressly provided below in this Section 4.2, (a) the Director will have until the date that is six (6) months after his or her Severance Date to exercise the Option (or portion thereof) to the extent that it was vested on the Severance Date, (b) the Option, to the extent not vested on the Severance Date, shall terminate on the Severance Date, and (c) the Option, to the extent exercisable for the 6-month period following the Severance Date and not exercised during such period, shall terminate at the close of business on the last day of the 6-month period;

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

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

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

**5. <u>Non-Transferability</u>**.

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

**6. <u>Notices</u>.**

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

**7. Plan.**

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

**8. Entire Agreement.**

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

**9. Governing Law.**

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

**10. Effect of this Agreement.**

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

**11. Counterparts.**

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

**12. Section Headings.**

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

**13. Clawback Policy.**

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

**14. No Advice Regarding Grant.**

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

**EXHIBIT A**

**DEFINITION OF CHANGE IN CONTROL EVENT**

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

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

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

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

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

**Exhibit 10.8**

**EXAR CORPORATION**
**2014 EQUITY INCENTIVE PLAN**
**DIRECTOR RESTRICTED STOCK UNIT AWARD AGREEMENT**

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

**W I T N E S S E T H**

**WHEREAS**, pursuant to the Exar Corporation 2014 Equity Incentive Plan (the "**Plan**"), the Company has granted to the Director effective as of the date hereof (the "**Award Date**"), a credit of restricted stock units under the Plan (the "**Award**"), upon the terms and conditions set forth herein and in the Plan.

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

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

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

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

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

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

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

**5.** **<u>Dividend and Voting Rights</u>**.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*[Remainder of page intentionally left blank]*

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

| | |
|---|---|
| **EXAR CORPORATION,**<br>**a Delaware corporation**<br><br>By:__________________________________<br><br>Print Name:___________________________<br><br>Its:__________________________________ | **DIRECTOR**<br><br>__________________________________<br>*Signature*<br><br>__________________________________<br>*Print Name* |

**EXHIBIT A**

**DEFINITION OF CHANGE IN CONTROL EVENT**

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

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

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

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

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

# AMENDMENT NO. 2
# to
# EMPLOYMENT AGREEMENT

**THIS AMENDMENT NO. 2 TO EMPLOYMENT AGREEMENT** (this "Amendment") is dated as of October 15, 2014, by and between Exar Corporation, a Delaware corporation (the "Company"), and Louis DiNardo (the "Executive").

**WHEREAS**, the Executive is currently employed by the Company pursuant to that certain Employment Agreement, effective as of January 3, 2012 and subsequently amended as of December 31, 2013 (as amended, the "Agreement"); and

**WHEREAS**, the Company and the Executive desire to amend the Agreement to modify certain terms of a restricted stock unit award granted to the Executive pursuant to the Agreement on or about December 31, 2013 (the "RSU Award"), and to modify the Stock Unit Agreement that evidences the RSU Award (the "RSU Award Agreement"), in each case as provided herein.

**NOW, THEREFORE**, the parties agree as follows:

1. Section 3.3(c)(iii) of the Agreement is hereby amended and restated to read in its entirety as follows:

"(iii) 2013 RSU Award. Effective on the December 2013 Grant Date, the Compensation Committee approved the grant to the Executive of 100,000 RSUs, which will vest in two (2) equal installments, subject in each case to the Executive's active and continuous service to the Company through the applicable vesting date, as follows: i) the first installment of 50,000 RSUs shall be a time based award and vest on March 27, 2016, and ii) the second installment of 50,000 RSUs will be eligible to vest if during the period of four (4) consecutive fiscal quarters that begins with the second fiscal quarter of the Company's 2015 fiscal year and ends with the first fiscal quarter of the Company's 2016 fiscal year (the "Performance Period"), each of the three Performance Goals identified below is achieved (with the achievement of such goals being determined in each case by the Compensation Committee in its sole discretion). For these purposes, the "Performance Goals" shall be (a) the revenue of Integrated Memory Logic Limited ("iML") is at least $58.5 million ($65 million times 90%) for the Performance Period, (b) the Company achieves synergies in respect of its acquisition of iML of at least $2.25 million ($2.5 million times 90%) for the Performance Period, and (c) the iML earnings per Company share for the Performance Period (which shall be determined by dividing iML's earnings for the Performance Period by the Company's weighted-average outstanding shares for the Performance Period) is not less than $0.189 ($0.21 times 90%). If the Compensation Committee determines that all three Performance Goals have been met during the Performance Period, subject to the Executive's active and continuous service to the Company through the date of such determination, the second installment will vest on April 2, 2017. For avoidance of doubt, if the Compensation Committee determines that any of the three Performance Goals were not met during the Performance Period, the Compensation Committee may, in its sole and absolute discretion, adjust the Performance Goals to the extent (if any) it determines that the adjustment is necessary or advisable to reflect (1) any material change in corporate capitalization (such as a stock split or similar event) or any material corporate transaction (such as a reorganization, merger, acquisition or similar event), (2) any change in accounting policies or practices, (3) the effects of any special charges to the Company's or iML's earnings, or (4) any other similar special circumstances. Such RSU award shall be granted under the Plan and shall be subject to such further terms and conditions as set forth in a written award agreement to be entered into by the Company and the Executive to evidence the award (which agreement shall preserve the Executive's rights hereunder with respect to outstanding equity awards upon a termination of his employment as provided in Section 5.3(b) hereof)."

2. Section 3 of the RSU Award Agreement is hereby amended in its entirety to reflect the vesting provisions for the RSU Award set forth in paragraph 1 of this Amendment.

3. Except as expressly modified herein, the Agreement and the RSU Award Agreement shall each remain in full force and effect in accordance with their original terms.

4. Capitalized terms that are not defined herein shall have the meanings ascribed to them in the Agreement.

5. This Amendment may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

*[Remainder of page intentionally left blank]*

IN WITNESS WHEREOF, the parties have caused this Amendment to be duly executed and delivered on the day and year first above written.

EXAR CORPORATION

By: ______________________________

Richard L. Leza
Chairman of the Board

EXECUTIVE

______________________________

Louis DiNardo

**EXHIBIT 21.1**

**EXAR CORPORATION**
**LIST OF SUBSIDIARIES**

1. Exar Canada Corporation (a Canadian corporation).
2. Exar GMBH (a German corporation).
3. Exar (Hangzhou) Information Technologies Co., Ltd. (a People's Republic of China limited liability corporation).
4. Exar International Corp. (a Cayman Island corporation)
5. Exar Japan Corporation (a Japanese corporation).
6. Exar Korea Co. Ltd. **(**a Korean limited liability corporation).
7. Exar Malaysia SDN BHD (a Malaysian limited liability corporation).
8. Exar SARL (a French limited liability corporation).
9. Exar representative office (Italy)
10. Exar Taiwan
11. Hifn Inc.
12. Micro Power Systems, Inc.
13. Sipex Corporation
14. Cadeka Microcircuits LLC
15. Cadeka Technologies (HK) Ltd.
17. Stretch, Inc.
18. Stretch Europe GmbH
20. Integrated Memory Logic Limited
21. iML International
22. iML Korea
23. Integrated Memory Logic Inc.
24. Integrated Memory Logic Hong Kong
25. iML Taiwan (Branch)
26. iML China WFOE

EXHIBIT 23.1

## CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Exar Corporation
Fremont, California

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-189271, 333-147154, 333-147153, 333-30398, 033-61495, and 033-59071) and Form S-8 (Nos. 333-198841, 333-198840, 333-179730, 333-170417, 333-145741, 333-138839, 333-96967, 333-55082, 333-48226, 333-31120, 333-69381, 333-37369, 333-37371 and 033-58991) of Exar Corporation of our reports dated June 5, 2015 relating to the consolidated financial statements and the effectiveness of Exar Corporation's internal control over financial reporting, which appear in this Form 10-K.

/s/ BDO USA, LLP
San Jose, California
June 5, 2015

**EXHIBIT 31.1**

# PRINCIPAL EXECUTIVE OFFICER CERTIFICATION

I, Louis DiNardo, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: June 5, 2015

/s/ Louis DiNardo

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

**EXHIBIT 31.2**

# PRINCIPAL FINANCIAL OFFICER CERTIFICATION

I, Ryan A. Benton, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: June 5, 2015

/s/ Ryan A. Benton

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

**Exhibit 32.1**

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

I, Louis DiNardo, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the Annual Report of Exar Corporation on Form 10-K for the period ended March 29, 2015 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Exar Corporation.

Date: June 5, 2015

/s/ Louis DiNardo

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

Exhibit 32.2

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

I, Ryan A. Benton, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the Annual Report of Exar Corporation on Form 10-K for the period ended March 29, 2015 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Exar Corporation.

Date: June 5, 2015

/s/ Ryan A. Benton

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