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 31, 2009
Commission File Number: 001-13748

zilog®

ZiLOG, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**13-3092996**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
6800 Santa Teresa Boulevard, San Jose, CA	**95119**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (408) 513-1500

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 per share par value	The NASDAQ Stock Market LLC (NASDAQ Global Market)

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 of the Securities Act. Yes ☐ No☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange 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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrantós 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 ñlarge accelerated filer,ò ñaccelerated filerò and ñsmaller reporting companyò in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of September 30, 2008, the aggregate market value of the registrantós common stock held by non-affiliates of the registrant was approximately $52,803,299 based on the closing sale price for shares of the registrantós common stock as reported on the NASDAQ Global Market. Shares of common stock held by each officer and director have been excluded in that such persons may deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

At June 22, 2009, 17,285,090 shares of the registrantós common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The registrantós definitive Proxy Statement for the Annual Meeting of Stockholders to be held on September 22, 2009 is incorporated by reference in Part III of this Form 10-K to the extent stated herein.

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FORWARD-LOOKING STATEMENTS

Some of the statements under the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," and elsewhere in this Form 10-K, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. In some cases, you can identify forward-looking statements by terminology such as ñmayò, ñwillò, ñshouldò, ñexpectsò, ñanticipatesò, ñbelievesò, ñestimatesò, ñpotentialò, ñcontinueò, or the negative terms or other comparable terminology. These statements include:

- estimates of market growth;
- capital expenditures;
- the adequacy of available cash;
- the cost or outcome of any litigation pending or threatened;
- the impact on recent accounting pronouncements;
- any gross margin improvement resulting from our research and development effort; and
- the cost of compliance with environmental laws.

These statements relate to future events or our future financial performance and involve known and may involve unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by forward-looking statements including, but not limited to, prospects for future market growth. Other factors that may cause or contribute to differences include, but are not limited to, continued availability of third-party foundry and assembly services with commercially-reasonable quality and prices; under-absorption of manufacturing costs in our test and manufacturing support facilities from under-utilization of capacity; our distributors and customers significantly reducing their existing inventories before ordering new products and the costs associated with the Microchip lawsuit. In evaluating these statements, you should specifically consider various factors, including the risks outlined under "Risk Factors.ò

Although we believe that the expectations in the forward-looking statements contained in this Form 10-K are reasonable, we cannot guarantee future results, levels of activity, and performance achievements. These forward-looking statements are based on our current expectations, and we disclaim any obligation to update these forward-looking statements for subsequent events or to explain why actual results differ unless otherwise required by law. You should not place undue reliance on these forward-looking statements.

Unless otherwise specified as a forward-looking statement, the information contained in this report is historical in nature and speaks as of the date of this report unless otherwise clearly indicated. We disclaim any obligation to update this information for subsequent events.

Period Comparisons

Effective December 29, 2005, we changed our fiscal year end from December 31 to March 31. Our interim results are based on fiscal quarters of thirteen weeks in duration ending on the last Saturday of each calendar quarter, with the exception of the last quarter, which ends on March 31 beginning in fiscal 2006. The operating results for any interim period are not necessarily indicative of results for any subsequent period or the full fiscal year.

Based in San Jose, California, we were incorporated in California in September 1973 and merged with a subsidiary of Exxon (which subsidiary changed its name to ZiLOG, Inc.) in November 1981. We were reacquired by an affiliate of Warburg Pincus and Management in 1989 and reincorporated in Delaware in April 1997. We were acquired by an affiliate of Texas Pacific Group in 1998 and we were reorganized in bankruptcy in 2002. In this report, ñZiLOG,ò ñthe Company,ò ñour,ò ñus,ò ñwe,ò and similar expressions refer to ZiLOG, Inc. and its subsidiaries. However, when these expressions are used throughout this report in connection with ZiLOG, Inc.ôs reorganization under Chapter 11 of the U.S. bankruptcy code, they are referring only to the parent company, ZiLOG, Inc., and not to any of its subsidiaries. EZ80ACCLAIM!, CRIMZON, Zatara, ZiLOG, Z8, Z80, eZ80, Z8 ENCORE!, Encore!XP and Zneo are registered trademarks of ZiLOG, Inc., in the United

States and in other countries. ARM is a registered trademark of ARM Limited in the EU and other countries. Other product and or service names mentioned herein may be trademarks of the companies with which they are associated.

During fiscal 2009, we experienced a significant reduction in sales reflecting lower demand for product and the global worldwide recession. Following a review of our strategy in light of an anticipated continuation of contraction in the market place, on February 18, 2009, we completed the sale of our universal remote control and secured transaction processor businesses to Maxim Integrated Products, Inc. (ñMaximò) and Universal Electronics Inc. (ñUEIò) for approximately $31 million in cash including $3.1 million that is held in escrow to satisfy any losses incurred by Maxim or UEI that may result from inaccuracies in our representations and warranties in the acquisition agreement or our failure to fulfill certain obligations in the acquisition agreement. The escrow is scheduled to be released 50% after 6 months and 100% after 12 months. A gain on the sale of $21.6 million was recorded. In accordance with Statement of Financial Accounting Standards No. 144, ñAccounting for the Impairment or Disposal of Long Lived Assetsò, the assets and liabilities, results of operations and cash flows related to the sale business, have been classified as discontinued operations in the consolidated financial statements for all periods presented through the date of the sale. Cash flows associated with the sale businesses have been segregated in the consolidated statements of cash flows as separate line items within operating, investing and financing activities. As a result, historical financial statements have been restated to exclude assets, liabilities and results of operations and cash flows related to the sold businesses. Restatement of these balances may make reconciliation or reference to previously filed financial statements difficult.

PART I

ITEM 1. BUSINESS

BUSINESS

Our Business

We are a fabless semiconductor supplier of microprocessor and microcontroller semiconductor products. A microcontroller is a computer-on-a-chip that is optimized to control electronic devices, such as motors, remote controllers and user interfaces on appliances. A microcontroller typically includes a central processing unit, non-volatile program memory, random access memory for data storage and various peripheral capabilities. The microcontroller is offered as a complete solution because it incorporates application-specific software provided by the customer and may include specialized peripheral device controllers and internal or external non-volatile memory components to enable the storage and access of additional program software.

ZiLOG was founded in 1974. We design, develop, test and market a portfolio of these devices for a variety of applications used in consumer electronics, home appliances, security systems, point-of-sale terminals, personal computer peripherals, personal health and medical products.

We introduced our first products in the mid-1970ôs and have since established a globally recognized brand. We sell our devices indirectly through contract manufacturers or directly to a diverse customer base of Original Equipment Manufacturers (ñOEMsò) and Original Design Manufacturers (ñODMsò) for general purpose use or for use in application specific end markets. Additionally, we sell our devices to distributors who generally provide logistical and post sales support to these customers.

We continue to invest in the development of new microcontroller and microprocessor products, including derivatives of our Z8 Encore!, Z8Encore!XP, and eZ80 Acclaim! product families which are designed to incorporate reprogrammable flash memory and enhanced peripherals with features that may allow such functionality as power management, sensing, secure transactions and connectivity. More recently we have begun development of system solutions including our Zdot family of products.

During fiscal 2009, we experienced a significant reduction in sales reflecting lower demand for product and the global worldwide recession. Following a review of our strategy in light of an anticipated continuation of contraction in the market place, on February 18, 2009, we sold our universal remote control and secured transaction processor businesses to Maxim and UEI for approximately $31 million in cash including $3.1 million that is held in escrow to satisfy any losses incurred by Maxim or UEI that may result from inaccuracies in our representations and warranties in the acquisition agreement or our failure to fulfill certain obligations in the acquisition agreement. The escrow is scheduled to be released 50% after 6 months and 100% after 12 months. A gain on the sale of $21.6 million was recorded. In accordance with Statement of Financial Accounting Standards No. 144, ñAccounting for the Impairment or Disposal of Long Lived Assetsò, the assets and liabilities, results of operations and cash flows related to the sale businesses, have been classified as discontinued operations in the consolidated financial statements for all periods presented through the date of the sale. Cash flows associated with the sale businesses have been segregated in the consolidated statement of cash flows as separate line items within operating, investing and financing activities. As a result, our historical financial statements have been restated to exclude assets, liabilities and results of operations and cash flows related to the sold businesses. Restatement of these balances may make reconciliation or reference to previously filed financial statements difficult. As a result of this transaction, our continuing operations include our traditional classic 8-bit microcontroller and microprocessor products as well as our new 8-bit embedded flash microcontroller products.

Our Industry

Microcontroller and microprocessor devices have been incorporated into a wide variety of products in markets including consumer electronics, home appliances, security systems, point-of-sale terminals and personal computer peripherals, as well as industrial and automotive applications. Microcontrollers are generally segmented by word length, which is measured in bits ranging from 4-bit through 32-bit architectures. Although 4-bit microcontrollers are relatively inexpensive, they generally lack the minimum performance and features required for product differentiation and are typically used only to produce basic functionality in products. While traditional 16 and 32-bit architectures are typically higher performance, they can be too expensive for many high-volume embedded control applications, typically costing two to four times the cost of an 8-bit microcontroller. Manufacturers will choose the appropriate microcontroller or microprocessor based on cost, performance and functionality requirements. Microcontrollers are used broadly in over 100 different market categories for specific and general purpose applications.

Analysts such as Semico Research estimate the 8-bit market to be in excess of $4.7 billion per year with the fastest growing element of that market being embedded flash. We believe that 8-bit microcontrollers are generally perceived as the most cost-effective embedded control solution for high volume requirements. High-volume microcontrollers available today include Read Only Memory (ñROMò) or One-Time Programmable (ñOTPò), which typically require longer delays and greater costs in order to implement customer application code changes as compared to embedded flash with reprogrammable capabilities. ROM and OTP products generally result in longer lead times for delivery of such microcontrollers. In addition to delayed product introduction, these longer lead times can result in potential inventory obsolescence and disruptions to customersô factory production when changes in the application code are required by the customer. To address some of these challenges, suppliers may offer OTP-based microcontrollers that can be configured by the customer in the customerõs manufacturing line, thus minimizing lead-time and inventory risks if the customerõs application code requires changes. Furthermore, flash memory offers the flexibility of in-product re-programmability. While these flash-based microcontrollers were initially expensive relative to ROM and OTP-based microcontrollers, manufacturing technology has evolved over the past years to the point where the premium for flash microcontrollers over ROM and OTP-based microcontrollers can be minimal thereby continuing to make flash based microcontrollers the fastest growing technology segment in the 8-bit microcontroller market

Our Strategy

The key elements of our strategy are:

Deliver Complete Solutions to Our Customers

We are focused on providing advanced integrated semiconductor and software solutions that assist our customers in adding functionality and enhancing the performance of their products. We currently serve the microcontroller markets with our product portfolio of 8 and 16-bit microcontrollers and, microprocessors that may include embedded flash technologies.

Partner with Third Party Manufacturers to Leverage Scale

Our manufacturing strategy is to utilize third-party wafer foundries to manufacture our devices. We believe outsourcing the manufacturing process enables us to access advanced technologies and reduce our manufacturing costs. This strategy allows us to focus greater resources on product design, systems and software development and customer support. In line with this strategy, during 2002 and 2004 we closed our wafer manufacturing facilities in Nampa, Idaho, and migrated production of these products to our wafer foundry suppliers. Generally, our embedded flash products are supported by wafer purchases from TSMC and UMC in Taiwan and our classic products are sourced from X-FAB in Lubbock, Texas.

Products and Applications

We are a trusted supplier of application specific, embedded system-on-chip (SoC) solutions for the industrial and consumer markets. From our roots as an award-winning architect in the microprocessor and microcontroller industry, we have evolved to become a key provider of customized embedded solutions including silicon, SoCs, single board computers, application specific software stacks and development tools that allow embedded designers quick time to market in areas such as energy management, monitoring, metering and motion detection.

Our products offer our customers the ability to integrate peripheral functions (such as network connectivity, timers, serial communication, analog to digital conversion and display drivers) on our micrologic devices. These additional functions enhance the capabilities of the customerõs end product, which can lower their overall systems costs. These peripherals incorporate functionality, which may otherwise be found in a separate chip, on the printed circuit board to which the micrologic device is attached.

We combine different microprocessors, memories and software to create semiconductor solutions specifically tailored to meet the requirements of targeted vertical markets.

Customers, Sales and Marketing

Introduction

To market our products, we utilize a well-trained, direct and distribution sales force, a customer-centric website, technical documentation that includes product specifications and application notes, development tools and reference designs, sales promotional materials, targeted advertising and public relations activities, and involvement in key trade shows and technical conferences in the Americas, Europe and Asia. Our direct sales force and our sales representatives cover various geographic locations in the Americas, Europe and Asia.

Sales Process

Through direct sales and distributors we have developed relationships with customers, including large OEMs, ODMôs and end users. By collaborating with customers in an interactive product design and development process, we have been able to establish long-standing relationships, which help us solidify our customer base and define our next generation products.

We work closely with our customers in identifying opportunities for the customer to pursue end product designs using our devices. The customerôs decision to design an end product using our devices is based upon technical and financial factors, including microprocessor performance, memory, peripheral options, pre-existing customer relationships, financial stability, pricing and technology roadmaps. Typically, a customerôs product architects and design engineers will use our proprietary development tools over a period of many months to design an end product and test the design using our devices before making a decision.

We classify a design win as the point at which the customer has placed orders to purchase a minimum level of product. Once we have achieved a design win, we deliver a limited production of the device to our customer. Product prototypes are then created and tested. If the decision is made to produce the product for sale, we will begin to receive full production orders over time. The entire cycle from design win to full production typically takes between 12 and 18 months, although it may take much longer. After a design win is achieved, our sales are generally made pursuant to short-term cancelable purchase orders that can be cancelled upon 30 to 60 days notice. As a result, design wins are not necessarily an accurate or reliable indication of future net sales.

Direct Sales Force

Our direct sales force focuses on the Americas, Europe and Asia. For each of the fiscal years ended March 31, 2009, March 31, 2008 and March 31, 2007, the percentage of net sales derived from sales to direct customer accounts accounted for 21%, 22% and 25% of total net sales respectively. Additionally, from time to time we engage sales representative firms to further augment our own direct sales force.

We provide direct customer support through our field application engineers, who work directly with local customers in close consultation with our factory-based technical specialists. Field application engineers typically develop technology expertise in a market segment that is most prominent in their geographic areas. These engineers provide significant aid to the customer throughout the design process. Customer support is provided locally or through our global support organization in Manila, Philippines.

Distribution Partners

We entered into a distributor agreement with Future Electronics effective October 23, 2002. This agreement provides that Future Electronics will be our exclusive full-service distributor within North America and will also serve as a non-exclusive distributor for the rest of the world. Either party may terminate the agreement upon 30 days prior written notice to the other party. Future Electronics is a private Canadian-based company with an extensive and well-integrated international distribution infrastructure. Their ability to cover a broad spectrum of market opportunities, especially in embedded flash-based products, continues to provide significant value and opportunities for our flash product portfolio. Future Electronicsô value-added services to us have not increased our costs, and include a significant number of sales representatives focused on our business, seminars and workshops to train design engineers about our products, direct mail advertising, collateral materials and web site pages dedicated to our products. For each of the fiscal years ended March 31, 2009, March 31, 2008 and March 31, 2007, the percentage of net sales through our distribution channel was 79%, 78% and 75% including Future Electronics which accounted for approximately 42%, 37% and 34% of net sales for each of the respective years. Additionally, we use various distributors to support both our Asia and European markets. Distributors in these regions generally specialize based on the country serviced and have rights of return and/or price protection on unsold merchandise held by them. We have no exclusive arrangements in these regions and have distributor agreements for the supply and support of product sales to their customers.

Manufacturing and Sourcing

Our manufacturing strategy is to utilize third-party wafer foundries to manufacture our devices. We believe outsourcing manufacturing enables us to access advanced process technology and reduce our research and development and manufacturing costs. We source our wafer requirements from third-party foundries located in Taiwan and the United States. Generally, wafers for our embedded flash products are supplied by TSMC and UMC and our traditional classic products are provided by X-FAB in Lubbock, Texas. Our product package assembly, wafer test and final test operations are performed by subcontractors located throughout Asia including Indonesia, Thailand and the Philippines. In fiscal 2009, we completed the outsource of our production test activities to external suppliers.

The SGS International Certification Services AG of Zurich, Switzerland granted an ISO 9001 certification to our Philippines test facility. ISO certifications reflect the stringent quality standards to which all of our products are manufactured. We believe that these certifications enhance the reputation and quality of our products.

Research and Development

Our research and development expenditures associated with our continuing microcontroller operations have been focused on the design and development of our 8 and 16-bit embedded flash-based microcontrollers, including our Z8 Encore! Z8 Encore XP, ZNEO, eZ80 Acclaim! and Z-dot families of products and solutions.

Research and development expenditures for continuing operations were $6.3 million, $8.1 million and $12.5 million for the fiscal years ended March 31, 2009, March 31, 2008 and March 31, 2007, respectively. This represented 17.3%, 18.2% and 21.6% of net sales for the fiscal years ended March 31, 2009, 2008 and 2007, respectively. During the fiscal years ended March 31, 2009, March 31, 2008 and March 31, 2007, our research and development expenditures for continuing operations were focused on our embedded flash products as well as Zdot products targeted as more complete solutions. These Zdot solutions may be provided at a module or board level with system level software to support a more complete solution.

Our research and development expenses decreased in fiscal 2009 as compared to fiscal 2008 as a result of our decisions in December 2009 to reduce our worldwide headcount and further by our decision in February 2009 to sell our universal remote control and secured transaction processor businesses to Maxim and UEI. We currently have approximately 22 employees in engineering related activities focused on new hardware and software applications as well as tools development. Our development activities are performed in the U.S. at our San Jose, California facility with additional support activities in our Manila, Philippines and Meridian, Idaho facilities.

Competition

The semiconductor industry is highly competitive and is characterized by price erosion and the rapid technological changes in many markets. The industry consists of major domestic and international semiconductor companies, many of which have substantially greater resources than we do with which to pursue engineering, manufacturing, marketing and distribution of their products. Emerging companies are also expected to increase their participation in the semiconductor market.

We compete on a global basis with other micrologic device manufacturers who target the same specific market segments. We believe the primary basis for competition include: price, technological sophistication, customer relationships, support tools, familiarity with micrologic architecture and existing customer investment in system software based on a particular architecture. In many instances, our competitors have similar competitive strengths to us and have significantly more resources than we do. Many of our competitors are much larger than we are, with broad product offerings in many sectors.

Our current and future products compete with, or may compete with, products offered by Atmel, Cypress Semiconductor, Freescale, Microchip, Renasas, Samsung and STMicroelectronics, among others.

Backlog

Our total backlog of cancelable customer orders on continuing operations was $5.0 million at March 31, 2009, $7.7 million at March 31, 2008, and $8.3 million at March 31, 2007. Our sales are generally made pursuant to short-term cancelable purchase orders that are cancelable upon 30 to 60 days notice rather than long-term contracts. As a result, our backlog may not be an accurate measure of net sales or operating results for any period. Additionally, during times of economic downturn there tends to be excess capacity in the marketplace, driving shorter lead time expectations which often results in a higher percentage of book-ship (or turns) business in the period.

Patents and Licenses

We currently have 185 U.S. and non-U.S. patents as of March 31, 2009, which expire between fiscal years 2010 and 2026.

We employ a combination of patents, copyrights, mask-work rights, trademarks and trade secrets, as well as contractual restrictions, to protect the proprietary aspects of our business and devices. In addition to our own intellectual property, we license technologies and products from others, as necessary, to provide second sources for standard products or to obtain rights to cores, cells or other technology. We often enter into agreements to incorporate into our designs the intellectual property of third parties. Such agreements may impose certain obligations or limitations on our use or disclosure of, such intellectual property or the enforcement of our own intellectual property. We hold numerous U.S. and foreign patents and have additional U.S. and foreign patent applications pending. We also hold numerous mask works, copyrights to protect proprietary software employed in our devices and trademarks. We intend to continue investing in the protection of our intellectual property through the filing of patent applications and, if appropriate, the registration of copyrights, mask-works and trademarks. Nevertheless, we believe that our continued success depends primarily on the technological skills and innovative abilities of our personnel and our ability to rapidly commercialize product developments. Thus, we believe that the loss of any one of our patents or trade secrets would not materially affect our core business.

The extent and value of our intellectual property is necessarily uncertain. While we intend to protect our intellectual property rights vigorously, our efforts may not be successful. Despite our precautions, a third party may copy, or otherwise obtain, our devices or technology without authorization, requiring patent litigation to enforce our rights. Patent litigation is, by its nature, expensive and unpredictable. If litigated, one or more of our patents may be found invalid or unenforceable or to have claims of such narrow scope as to be of little economic value. Third parties may design around our patents. Third parties may independently develop technology similar to our trade secrets. In addition, the laws of some foreign countries where we have patent and trademark rights may not protect our intellectual property rights to the same extent as the laws of the United States. Additionally, our pending and future patent applications should not be relied upon as they may not issue as patents, and even if they do issue, such future patents may not be of sufficient scope or strength to provide meaningful economic or competitive value.

The semiconductor industry is characterized by frequent litigation regarding patent and other intellectual property rights, both defensive and offensive. From time to time we have received, and may in the future receive communications from third parties asserting that a product offered by us, or an aspect of our business, infringes a patent held by the third party and/or require a license thereto. With respect to those third party communications that are currently pending but which have not yet been filed as a lawsuit, we believe, after having consulted with counsel, that either (i) we have meritorious defenses, (ii) based on license terms previously offered to us or typically available in the industry, we can obtain any necessary licenses on commercially reasonable terms, or (iii) we can modify our products to avoid such rights, but in any case, we may be sued and assessed damages for past infringement. Indeed, licenses may not be available on commercially reasonable terms, or at all. In addition, we have certain indemnification obligations to customers with respect to such claims of infringement of third party intellectual property rights by our devices. Should it become necessary to engage in litigation to defend against such assertions, such litigation could be expensive and time consuming. There can be no assurance that the ultimate resolution of these matters would not have a material adverse affect on our business.

On August 11, 2005, Microchip Technology, Inc. (ñMicrochipò) filed a patent infringement claim against us in the U.S. District Court of Arizona (case number CV05-2406-PHX-MHM). Microchip alleges that we have infringed, and currently infringe, its patents numbered 5,847,450, 6,696,316 and 6,483,183. Microchip claims that unspecified products of ours, including the Z8 Encore! XP 4K Series of products, infringe these patents and is seeking preliminary and permanent injunctive relief, unspecified damages and costs, including attorneysô fees. We filed a response to the claims on September 15, 2005 generally denying the claims and challenging the validity of the patents. On January 10, 2006, we filed a request for patent re-examination with the U.S. PTO, which was granted in February and March 2006 for all 3 patents. On April 11, 2008, we received a notice that all of Microchipôs claims under these three patents have been rejected by the U.S. PTO. After this favorable ruling, Microchip filed appeal notices in the U.S. PTO in May 2008. We do not believe it is feasible to predict or determine the outcome or resolution of this litigation at this time. We believe we have meritorious defenses and will defend ourselves against these claims vigorously. We may incur substantial expenses in our defense against these claims. In the event of a determination adverse to us, we may incur substantial monetary liabilities and be required to change our business practices. Either of these could have a material adverse effect on our financial position, results of operations and/or cash flows.

On December 1, 2006, we filed a patent infringement claim against Altera Corporation ("Altera") and Actel Corporation ("Actel") in the U.S. District Court of California (civil docket number 4:06-cv-07388-SBA). We alleged that Altera and Actel have infringed our patent numbered 4,670,749 which we believe to be the fundamental patent for programmable logic. We claimed that Altera's and Actel's products infringed these patents and we sought unspecified damages and costs, including attorneys' fees. Actel settled their case with us on June 11, 2007 for an undisclosed amount.

On May 23, 2008, Altera filed a patent infringement claim against us in the U.S. District Court of Texas (civil action number 2:08-CV-218). Altera alleged that we infringed its patents numbered 6,097,211, 6,147,511 and 6,314,550. Altera claimed that unspecified products of ours, including the eZ80 and Zneo series of products, infringed these patents and sought preliminary and permanent injunctive relief, unspecified damages and costs, including attorneys' fees. On March 31, 2009, we agreed with Altera to settle all pending litigation. As part of this agreement, we made a one-time payment of an undisclosed amount to Altera and both parties have agreed to dismiss their patent infringement lawsuits.

Employees

As of March 31, 2009, we had 174 full time employees, comprised of approximately 96 in manufacturing-related activities, 22 in engineering, 18 in sales and marketing and 38 in general and administrative functions, including Finance, HR, IT and facilities, of which a total of 25 are located in our global support facility in Manila, Philippines. 33 of our 174 full time employees supported transitional activities associated with our December 2008 worldwide headcount reduction plan, which was substantially completed in June 2009.

Our employees are not represented by any collective bargaining organization.

Environmental

Any failure by us to control the use of, or adequately restrict the discharge of, hazardous substances could subject us to future liabilities that could materially harm our business, including under laws and regulations that impose liability and clean-up responsibility for releases of hazardous substances into the environment. Until 2005, we operated wafer fabrication activities in our Nampa, Idaho facilities. Until February 2006, we owned an 8-inch wafer manufacturing facility and until April 2007, we owned a 5-inch wafer manufacturing facility. Our manufacturing processes at these facilities required us to use various hazardous substances, and, as a result, we were subject to a variety of environmental laws and regulations governing the storage, use, emission, discharge and disposal of, and human exposure to, such substances. In particular, the process of manufacturing silicon wafers used large amounts of corrosive and other hazardous chemicals and huge quantities of distilled, de-ionized water. Subsequent to the ceasing of wafer manufacturing activities in these facilities, the facilities were cleaned and prepared for sale and the equipment was decommissioned and sold. We no longer conduct manufacturing activities in Nampa, Idaho.

With respect to environmental remediation, we could incur substantial costs for the clean up of contaminated properties, either those we own or operate or to which we have sent wastes in the past. Under certain of these laws and regulations, current or previous owners or operators of property may be liable for cleanup costs and other damages without regard to whether they knew of, or caused, the contamination. The presence of, or failure to remediate, contamination could materially adversely affect the value of, and the ability to transfer or encumber, our property. In addition, we may be required to incur significant expense in connection with governmental investigation of environmental or employee health and safety matters. Currently, we are not aware of any such actions or notices against us.

Available Information

The Companyӱs annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on form 8-K and all amendments to those reports are available free of charge on the Companyӱs website through www.zilog.com, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission ӮSECӯ. Information contained on our web site is not part of this annual report on Form 10-K.

Alternatively, you may read and copy any materials filed with the SEC at the SEC's Public Reference Room at 100 F. Street, NE, Washington, DC 20549 or access the information on the SEC's website at www.sec.gov. Additional information regarding operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

In addition, you may request a copy of these filings (including exhibits) at no cost by writing us at our principal offices at 6800 Santa Teresa Blvd., San Jose, CA 95119, attention: Investor Relations, or by calling (408) 513-1500.

ITEM 1A. RISK FACTORS

RISK FACTORS

Risks Related to Our Business and Industry

The following risk factors should be considered carefully in addition to the other information in the Form 10-K. The risks described below are the ones we deem to be material to our business, but are not the only ones we face. Additional risks we are not presently aware of or that we currently believe are immaterial may also impair our business operations. If any of these risks actually occur, our business could be harmed materially.

Current economic conditions and the global financial crisis may have an impact on our business and financial condition in ways that we currently cannot predict.

Our operations and performance depend on worldwide economic conditions and their general impact on levels of business spending. These economic conditions have continued to deteriorate significantly in many countries and regions and may remain depressed for the foreseeable future. Uncertainties in the financial and credit markets have caused our customers to postpone purchases, and continued uncertainties may reduce future sales of our products. Protectionist trade measures that may be adopted in response to the economic downturn could reduce demand for our products overseas. Our ability to access the capital markets may be restricted at a time when we would like, or need, to do so, which could have an impact on our flexibility to pursue additional expansion opportunities and maintain our desired level of revenue growth in the future. These and other economic factors could have a material adverse effect on demand for our products and on the our financial condition and operating results.

We operate in the highly cyclical semiconductor industry and have experienced a downturn in the business cycle, which has materially adversely affected our revenues and cash generation.

The semiconductor industry is highly cyclical and has experienced significant economic downturns, often in connection with, or in anticipation of, maturing product cycles (for semiconductors and for the end-user products in which they are used) and declines in general economic conditions. These downturns have been characterized by diminished product demand, erosion of average selling prices, production over-capacity and high inventory levels. For example, beginning in the quarter ended December 31, 2000, we experienced a three-year downturn in our business cycle. We are currently experiencing another very severe down-turn in our business cycle and may experience downturns in the future. We believe that, in light of these events, many of our customers curtailed and may in the future delay or further curtail spending on technology, which could negatively affect our quarterly results or financial condition in the future. This resulted in sharp declines in our net sales in the second half of fiscal 2009. This global economic downturn has increased pressure on us to reduce our prices, which could impair our revenues, gross margins and operating cash flow. It has also increased the risk that we may not collect all our accounts receivable or that suppliers, assemblers and test subcontractors may go out of business, creating delays in our ability to ship products. From time to time, the semiconductor industry also has experienced periods of increased demand and production capacity constraints. We have in the past experienced substantial period-to-period declines in operating results, and will likely in the future experience substantial period-to-period fluctuations in operating results that are attributable to semiconductor industry conditions or events occurring in the general economy.

As a result of the sale of our universal remote control and secured transaction processor businesses, we offer a narrower range of products and any downturn in the market for our product offering may disproportionately affect us.

As a result of the sale of our universal remote control and secured transaction processor businesses to Maxim and UEI, our product offering has been significantly narrowed. This may disproportionately expose us to losses should the markets in which we currently compete continue to experience contraction as a result of the global worldwide recession.

We have experienced declines in net sales, and, if we fail to implement our new product strategy, we may continue to experience declines in sales and gross margins.

In each of the past five years, our net sales from continuing operations have fluctuated significantly and our future financial results are anticipated to be subject to substantial fluctuations. Our total net sales were $36.2 million for the fiscal year ended March 31, 2009, $44.6 million for the fiscal year ended March 31, 2008 and $58.0 million for the fiscal year ended March 31, 2007. We anticipate that sales of our classic products may continue to decline over time. Our future financial performance and success are largely dependent on our ability to implement our new product strategy, which consists partly of refocusing our business on microcontroller products built around our core 8-bit micrologic architecture, beginning with the Z8 Encore! and eZ80 Acclaim! flash products. Since 2002, we have launched our new series of 8-bit embedded flash microcontrollers and derivatives. These products typically have a long lead time from design to production, which can range from twelve months to thirty-six months. These embedded flash products represented approximately 29% of our net sales for continuing operations for the fiscal year ended March 31, 2009 compared to 30% of our net sales from continuing operations for the fiscal year ended March 31, 2008, and we currently expect the contribution of these products to continue to grow. If we are unable to develop new products in a manner that timely meets changing market requirements, or if we are not able to achieve significant sales of our 8-bit microcontroller products for any reason, our product strategy may fail and our net sales and operating results may continue to decline or not grow as currently expected. In addition, as we introduce new products we experience additional start up costs and unfavorable manufacturing prices due to low volume. In addition, we do not expect margins on our 8-bit embedded flash products to be as strong as those on our classic products. Consequently, the introduction of new products could have a negative impact on our gross margin even if sales from such new products offset declining revenues from our classic products.

If we are unable to obtain adequate production capacity or quality, our business will be harmed.

We rely on independent third-party foundry manufacturers, including X-FAB, TSMC and UMC, to fabricate wafers for all of our product needs. Industry-wide shortages in foundry capacity could harm our financial results. If we are unable to obtain the requisite foundry capacity to manufacture our products, or if we have to pay higher than anticipated prices to foundries in periods of tight capacity, we may not be able to meet our customersô demand for our products. Any delay in initiating production at third-party foundries, any inability to have new products manufactured at such foundries, or any failure to meet our customersô demands, could damage our relationships with our customers and may decrease our sales.

Other significant risks associated with relying on these third-party foundries include:

- reduced control over the cost of our products, delivery schedules, capacity constraints and product quality;
- limited warranties on wafers or products supplied to us;
- increased exposure to potential misappropriation of our technology;
- yield or quality issues with the supplier which could result in us being unable to supply product to customers or providing product that does not meet their quality or performance standards;
- vulnerability to third-party foundriesô financial, operations or production difficulties; and
- the time and cost associated with switching or sourcing alternate foundries.

We may require additional capital in the future and additional funds may not be available on terms acceptable to us.

Based on our existing financial plans and forecasts, we believe that our existing cash and cash equivalents will be sufficient to meet our planned capital needs for the next year. However, it is possible that we may need to raise additional capital to fund our future activities. We may be able to raise these funds by selling securities to the public or selected investors, or by borrowing money. The conditions in the current financial markets would make borrowing money or selling securities very difficult. We may not be able to obtain additional funds on favorable terms, or at all. If adequate funds are not available on acceptable terms, we may be required to curtail our operations significantly, reduce planned capital expenditures and research and development, make selective dispositions of our assets or obtain funds through arrangements with strategic partners or others that may require us to relinquish rights to certain technologies or potential markets, or otherwise impair our ability to remain competitive.

We could be required to incur significant capital expenditures for test and information technology and equipment to remain competitive, the failure, inadequacy or delayed implementation of which could harm our ability to effectively operate our business.

Our capital expenditures were $0.6 million for the fiscal year ended March 31, 2009, $1.3 million for the fiscal year ended March 31, 2008 and $2.1million for the fiscal year ended March 31, 2007. We may be required to increase our future capital expenditures to meet increased demand.

Semiconductor manufacturing has historically required, and in the future is likely to continue to require, a constant upgrading of process technology to remain competitive, as new and enhanced semiconductor processes are developed which permit smaller, more efficient and more powerful semiconductor devices. Even though we outsource a significant amount of our manufacturing, we are required to spend funds on mask designs and process technology improvements to remain competitive.

We have recently outsourced our test operations. If we need to add additional test capacity internally, we will have to incur significant expenditures to acquire new test equipment. We also may incur significant costs to implement new test equipment and new information technologies to increase our productivity and efficiency. Any such implementation, however, can be negatively impacted by failures or inadequacies of the new information technology and unforeseen delays in its implementation, any of which may require us to spend additional resources to correct these problems or, in some instances, to conclude that the new technology implementation should be abandoned. In the case of abandonment, we may have to recognize losses for amounts previously expended in connection with such implementation that have been capitalized on our consolidated balance sheets.

There can be no assurances that we will have sufficient capital resources to make necessary investments in information technology and equipment.

Interruptions in information technology systems could affect our business.

We rely on the efficient and uninterrupted operation of complex information technology systems and networks to operate our business, especially between the Philippines and our San Jose, California headquarters. Any significant system or network disruption, including but not limited to computer viruses, security breach and energy blackouts, could have a material adverse impact on our operations, sales and operating results. We have implemented measures to manage our risks related to such disruptions, but such disruptions could negatively impact our operations and financial results. In addition, we may incur additional costs to remedy the damages caused by these disruptions or security breaches.

If we are unable to prevail in a patent litigation lawsuit we may incur substantial monetary liability and may be required to change our business practices.

On August 11, 2005, Microchip Technology, Inc. (ñMicrochipò) filed a patent infringement claim against us in the U.S. District Court of Arizona (case number CV05-2406-PHX-MHM). Microchip alleges that we have infringed, and currently infringe, its patents numbered 5,847,450, 6,696,316 and 6,483,183. Microchip claims that unspecified products of ours, including the Z8 Encore! XP 4K Series of products, infringe these patents and is seeking preliminary and permanent injunctive relief, unspecified damages and costs, including attorneysô fees. We filed a response to the claims on September 15, 2005 generally denying the claims and challenging the validity of the patents. On January 10, 2006, we filed a request for patent re-examination with the U.S. PTO, which was granted in February and March 2006 for all 3 patents. On April 11, 2008, we received a notice that all of Microchipôs claims under these three patents have been rejected by the U.S. PTO. After this favorable ruling, Microchip filed appeal notices in the U.S. PTO in May 2008. We do not believe it is feasible to predict or determine the outcome or resolution of this litigation at this time. We believe we have meritorious defenses and will defend ourselves against these claims vigorously. We may incur substantial expenses in our defense against these claims. In the event of a determination adverse to us, we may incur substantial monetary liabilities and be required to change our business practices. Either of these could have a material adverse effect on our financial position, results of operations and/or cash flows.

We depend on third-party assemblers throughout Asia, including Indonesia, Thailand and the Philippines, and the failure of these third parties to continue to provide services to us on sufficiently favorable terms could harm our business.

We use outside contract assemblers and test operations in Indonesia, Thailand and the Philippines for packaging and testing our products. These countries have been subject to political instability and terrorist activities. The packaging and testing of semiconductors is a complex process requiring, among other things, a high degree of technical skill and advanced equipment.

If we are unable to obtain additional assembly and test capacity on sufficiently favorable terms, our ability to maintain or grow our net sales could be impaired. Shortages in contract assembly and test capacity could cause shortages in our products and could also result in the loss of customers as a result of delays. Because we rely on these third parties, we also have less control over our costs, delivery schedules and quality of our products and our technology is at greater risk of misappropriation.

Our success depends on our ability to introduce new products on a timely basis.

Our operating results depend on our ability to introduce and sell new products on a timely basis that can compete effectively based on price and performance and that address customer requirements. Rapidly changing technologies and industry standards, along with frequent new product introductions, characterize the industries that are currently the primary end-users of semiconductors. As these industries evolve and our customers and potential customers introduce new products, our success will depend on our ability to adapt to such changes in a timely and cost-effective manner by designing, developing, manufacturing, marketing and providing customer support for new products and technologies. Our ability to introduce and sell new products successfully depends on several factors, including:

- development of support tools and technical documentation that make complex products easy for engineers to understand and use;
- proper new product selection;
- timely completion and introduction of new product designs;
- support from our foundry service providers;
- complexity of the new products to be designed and manufactured; and
- market acceptance of our products and our customersô products.

The emphasis of our new product development is on products built on our 8-bit microcontroller architectures. If market demand for these products does not develop as we anticipate, our product development strategy could fail. Because our products are complex, we may not meet the design and introduction schedules for any new products or any additions or modifications to our existing products, and these products may not achieve market acceptance. In addition, we may not be able to sell these products at prices that are favorable to us.

We may be unable to make the substantial research and development investments required to remain competitive in our business.

The semiconductor industry requires substantial investment in research and development in order to develop and bring to market new and enhanced technologies and products. As a result of the sale of our universal remote control and secured transaction processor businesses to Maxim and UEI, we significantly reduced our engineering, research and development and operational capabilities. This will limit our ability to pursue multiple developmental stage projects simultaneously and may lengthen our product development lifecycles and may have other unforeseen negative consequences to our business. There can be no assurances that we will have sufficient resources to maintain the level of investment in research and development that is required to remain competitive.

Our industry is highly competitive, and we may not be able to compete effectively.

The semiconductor industry is intensely competitive and is characterized by price erosion, rapid technological change and heightened competition in many markets. The industry consists of major domestic and international semiconductor companies, many of which have substantially greater financial and other resources than we do with which to pursue engineering, manufacturing, marketing and distribution of their products. Emerging companies are also increasing their participation in the semiconductor industry. Our current and future products compete with, or may compete with, products offered by Atmel, Cypress Semiconductor, Microchip, Freescale, Renasas, Samsung, and ST Microelectronics, among others. Some of our principal products, such as the Z80 microprocessor, are licensed by our competitors, or are in the public domain, and can be manufactured and sold to our customers by our competitors, possibly with added features or at lower prices than we charge. Our ability to compete successfully in our markets depends on factors both within and outside of our control, including:

- our ability to design and manufacture new products that implement new technologies including our 8 and 16-bit microcontroller based product families;
- our ability to protect our products by effectively utilizing intellectual property laws;
- our product quality, reliability, ease of use and price;
- the diversity of our product line and feature sets within our products;
- our efficiency of production;
- our ability to obtain adequate supplies of raw materials and other supplies at acceptable prices;
- the availability of subcontractors for the wafer fabrication, assembly and test of our products;
- the pace at which customers incorporate our devices into their products; and
- the success of our competitorsô products and general economic conditions.

The sale of our universal remote control and secured transaction processor businesses to Maxim and UEI exposes us to liabilities that are difficult to assess.

In connection with the sale of our universal remote control and secured transaction processor businesses to Maxim and UEI, we indemnified Maxim and UEI for losses that may result from inaccuracies in our representations and warranties in the acquisition agreement and our failure to fulfill certain obligations in the acquisition agreement. $3.1 million of the purchase price was placed into escrow to cover any such losses. Furthermore, our indemnification obligations for losses related to certain representations and warranties in the acquisition agreement are unlimited. As a result, potential liabilities are difficult to assess. Disputes over any claimed losses by Maxim and UEI may arise and result in litigation to the Company, which could be costly and cause management distraction.

Our quarterly operating results are likely to fluctuate and may fail to meet expectations, which may cause the price of our securities to decline.

Our quarterly operating results have fluctuated in the past and will likely continue to fluctuate in the future. If our quarterly operating results fail to meet expectations, the price of our securities could fluctuate or decline significantly. In addition, significant proportions of our costs are fixed, due in part to our significant sales, research and development costs and manufacturing costs. Therefore, small declines in revenue could disproportionately affect our operating results in a quarter. A variety of factors could cause our quarterly operating results to fluctuate, including:

- our ability to introduce and sell new products and technologies on a timely basis;
- any shortage of wafer, test or assembly manufacturing capacity at our third-party vendors;
- competitive developments, including pricing pressures;
- technological change and product obsolescence;
- changes in product mix or fluctuations in manufacturing yields;
- variability of our customersô product life cycles;
- the level of orders that we receive and can ship in a quarter and customer order patterns, which may be especially difficult to predict on our newer products;
- the impact of economic recessions on demand;
- seasonality;
- inventory write-downs or asset impairments;
- restructuring charges;
- increases in the cost or scarcity of raw materials; and
- gain or loss of significant customers.

We depend on orders that are received and shipped in the same quarter, and therefore our results of operations may be subject to significant variability from quarter to quarter.

Our net sales in any given quarter depend upon a combination of orders received in that quarter for shipment in that quarter and shipments from backlog. Our backlog at the beginning of each quarter does not include all sales needed to achieve expected revenues for that quarter. Consequently, we are dependent on obtaining orders to be shipped in the same quarter that the order is received for a significant portion of net sales in that quarter. Moreover, customers may reschedule shipments and production difficulties could delay shipments. Accordingly, we have limited visibility into future product shipments and our results of operations may be subject to significant variability from quarter to quarter.

Average selling prices in the semiconductor industry typically decline over time, which directly affects our revenue and margins.

Historically, average selling prices in the semiconductor industry have decreased over the life of any particular product. To the extent that our products achieve market acceptance, competitors typically seek to offer competitive products or embark on discount pricing strategies. We have in the past and may in the future be required to reduce selling prices in response to competition. From time to time, technology and manufacturing changes have the impact of lower average selling prices, such as the conversion of hardware to software modems and packaged to die only sales. If we are unable to offset any reductions in the selling prices of our products by introducing new products at higher prices or by reducing our costs, our revenues, gross margins and operating results could be impaired. In addition, if the price at which we can sell products in our inventory declines below the cost of such products, we may be required to write down the value of such inventory.

A significant amount of our revenues comes from relatively few distributors, and any decrease of revenues from these customers and distributors, or the loss of their business, could significantly harm our financial results.

Historically we have been, and we expect to continue to be, dependent on a relatively small number of distributors for a significant portion of our revenues. We depend on third-party distributors to market and sell our products, and these third-party distributors collectively accounted for approximately 79%, 78% and 75% of our net sales of continuing operations in each of the fiscal years ended March 31, 2009, March 31, 2008 and March 31, 2007, respectively. In addition, our five largest distributors accounted for approximately 68% of our net sales of continuing operations for the fiscal year ended March 31, 2009, 66% for the fiscal year ended March 31, 2008 and 63% of our net sales of continuing operations for the fiscal year ended March 31, 2007. One distributor accounted for approximately 42% of our net sales of continuing operations for the fiscal year ended March 31, 2009, 37% for the fiscal year ended March 31, 2008 and 34% for the fiscal year ended March 31, 2007. Our distributors decide whether to include our products among those that they sell, and they may carry and sell product lines that are competitive with ours. Because our distributors are not required to make a specified minimum level of purchases from us, we cannot be sure that they will prioritize selling our products. We also rely on our distributors to accurately report to us on a timely basis their sales of our products and provide certain support services to our customers. Our inability to obtain accurate and timely reports and to successfully manage these relationships could materially adversely affect our business and financial reports. Our distributors may not continue to effectively market, sell or support our products.

Our North American distributor could emphasize competing products, and we may lose some of our customers as a result.

In October 2002, we engaged Future Electronics (ñFutureò) as our exclusive full-service distributor in North America. Additionally, Future provides distributor support to us in Europe and Asia on a non-exclusive basis. For the fiscal years ended March 31, 2009, 2008 and 2007 Future sales on continuing operations were approximately $15.2 million, or 42% of net sales, $16.4 million, or 37% of net sales and $19.7 million, or 34% of net sales, respectively. Future distributes products of our competition that may directly compete with our product offerings. If Future chooses to promote those products over our products, our operating results could be harmed significantly. In addition, if Future were to terminate our distribution agreement, we could experience a period of significant interruption of our business while we obtained other distribution channels.

We depend on relatively few major customers for a substantial portion of our sales.

Our ten largest customers, excluding our distributors, accounted for approximately 18% of our net sales for continuing operations for the fiscal year ended March 31, 2009, 18% for the fiscal year ended March 31, 2008 and 20% for the fiscal year ended March 31, 2007. For the fiscal years ended March 31, 2009, March 31, 2008 and March 31, 2007, we had no direct customers that accounted for more than 6% of our net sales, respectively. For the fiscal years ended March 31, 2009, March 31, 2008 and March 31, 2007, we had one distributor that accounted for 42%, 37% and 34% of our net sales, respectively.

Concentration of net sales to particular customers may change from period to period, but we expect that sales to a limited number of customers will continue to account for a significant percentage of our revenues in any particular period for the foreseeable future. We have very few long-term contracts with our customers, and, like us, our customers typically compete in cyclical industries. We routinely purchase inventory based on customersô estimates of demand for their products, which is difficult to predict. Thus, our customers may decide not to purchase our products at all, to purchase fewer products than they did in the past, or to alter their purchasing patterns on short notice, particularly because substantially all of our sales are made on a purchase order or sales order acknowledgment basis, which permits our customers to cancel, change or delay product purchase commitments.

Any of our large customers may choose to exit the business we supply, or partner with, or acquire product from our competitors. Should this occur, our results of operations would likely be harmed. The loss of one or more major customers or any reduction, delay or cancellation of orders by any of these customers or our failure to market successfully to new customers, could result in a significant reduction in net sales during one or more periods, excess inventory or write-downs of inventory.

Our revenue may decline if customers for whom we are sole source providers seek alternative sources of supply.

We serve as the sole (or primary) source provider for some of our direct customers. Those customers may choose to reduce their dependence on us by seeking second sources of supply, which could reduce our revenue. To remain a sole (or primary) source provider, we must continue to demonstrate to our customers that we have adequate alternate sources for components, that we maintain adequate alternatives for production and that we can deliver value added products on a timely basis.

Our international operations subject us to risks inherent in doing business with countries outside the United States that could impair our results of operations.

Approximately 60 - 62% of our net sales for continuing operations for each of the fiscal year ended March 31, 2009, the fiscal year ended March 31, 2008 and the fiscal year ended March 31, 2007, were made to countries outside the United States. These sales to non-U.S. customers will continue to represent a significant portion of our net sales in the future. We maintain significant operations, or rely on a number of contract manufacturers, in the Philippines, Indonesia, Taiwan, Thailand, India and other locations in Asia. There can be no assurances that we will be successful in overcoming the risks that relate to, or arise from, operating in international markets. Risks inherent in doing business on an international level include:

- economic and political instability;
- changes in regulatory requirements, tariffs, customs, duties and other trade barriers;
- transportation delays;
- power supply shortages and shutdowns;
- difficulties in staffing and managing foreign operations and other labor problems;
- existence of language barriers and cultural distinctions;
- acts of God, including floods, typhoons and earthquakes;
- taxation of our earnings and the earnings of our personnel; and
- other uncertainties relating to the administration of, or changes in, or new interpretation of, the laws, regulations and policies of the jurisdictions in which we conduct our business.

In addition, our activities outside the United States are subject to risks associated with fluctuating currency values and exchanges rates, hard currency shortages and controls on currency exchange. While our sales are primarily denominated in U.S. dollars, worldwide semiconductor pricing is influenced by currency rate fluctuations, and such fluctuations could harm our operating results materially.

The risks inherent in our international operations have been increased by the threat of terrorist attacks. These attacks, coupled with an international military response, have created an uncertain economic environment, and we cannot predict the impact of these political threats or any related military action, on our customers or our business.

We have had a history of losses, and we may not be profitable in the future.

We have had a history of losses since the one-time gain on extinguishment of debt and fresh-start adjustments in 2002. We may not be profitable in the future.

We depend on key personnel, and the loss of our current personnel or our failure to hire and retain additional personnel could harm our business.

We depend on our ability to attract and retain highly skilled technical and managerial personnel. We believe that our future success in developing marketable products and achieving a competitive position will depend in large part on our ability to identify, recruit, hire, train, retain and motivate highly skilled technical, executive, managerial, marketing and customer service personnel. Competition for these personnel is intense, especially in Northern California, where our headquarters are located, and we may not be able to successfully recruit, assimilate or retain sufficiently qualified personnel. Our failure to recruit and retain necessary technical, executive, managerial, marketing and customer service personnel could harm our business and our ability to obtain new customers and develop new products. In addition, our history of losses and our 2002 bankruptcy reorganization could impair our ability to recruit and retain employees. We do not have employment contracts with any of our executive officers. We have recently received unsolicited proposals to acquire our company. Our ability to recruit and retain key personnel may be negatively impacted by uncertainties relating to potential future changes in the ownership and control of our company.

For a portion of our employee incentives, we issue common stock options that generally have exercise prices at the market value at time of the grant and that are subject to vesting. At times, our stock price has declined, reducing the effectiveness of these incentives.

We may fail to protect our proprietary rights, and the cost of protecting those rights, whether we are successful or not, may harm our ability to compete.

The extent and value of our intellectual property is necessarily uncertain, and our efforts to protect our intellectual property rights may not be successful. Despite our precautions, a third party may copy or otherwise obtain our devices or technology without authorization, requiring patent litigation to enforce our rights. Patent litigation is, by its nature, expensive and unpredictable. If litigated, one or more of our patents may be found invalid or unenforceable or to have claims of such narrow scope as to be of little economic value. Third parties may design around our patents. Third parties may independently develop technology similar to our trade secrets. In addition, the laws of some foreign countries where we have patent and trademark rights may not protect our intellectual property rights to the same extent as the laws of the United States.

Additionally, our pending and future patent applications should not be relied upon as they may not issue as patents, and even if they do issue, such future patents may not be of sufficient scope or strength to provide meaningful economic or competitive value.

Litigation may be necessary to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of our proprietary rights or the proprietary rights of others. Any such litigation may be unsuccessful and could require us to incur substantial costs and divert significant valuable resources, including the efforts of our technical and management personnel, which may harm our business materially.

The semiconductor industry is characterized by frequent litigation regarding patent and other intellectual property rights, both defensive and offensive.

In addition to the Microchip lawsuit described elsewhere, from time to time we have received, and may in the future receive, communications from other third parties asserting that a product offered by us, or an aspect of our business, infringes a patent held by the other third party and/or requires a license thereto. With respect to those other third party communications that are currently pending, we believe, after having consulted with counsel, that either (i) we have meritorious defenses, (ii) based on license terms previously offered to us or typically available in the industry, we can obtain any necessary licenses on commercially reasonable terms, or (iii) we can modify our products to avoid such rights, but if this is not the case, we may be sued and assessed damages for past infringement. Indeed, licenses may not be available on commercially reasonable terms, or at all. In addition, we have certain indemnification obligations to customers with respect to the infringement of third party intellectual property rights by our devices.

Intellectual property lawsuits are subject to inherent uncertainties due to the complexity of the technical issues involved, and we may not be successful in defending ourselves against intellectual property claims. The cost of defending against patent infringement or other intellectual property litigation, in terms of management time and attention, legal fees and product delays, could be substantial, whatever the outcome. If any patent or other intellectual property claims against us are successful, we may be prohibited from using the technologies subject to these claims, and if we are unable to obtain a license on acceptable terms, license a substitute technology, or design new technology to avoid infringement, we could be prohibited from using or selling the infringing products or technologies and be required to pay substantial damages. Such a result could have a material adverse effect on our business.

We could be forced to spend significant time and money on products that contain, or are rumored to contain, design defects or errors.

Because the design and production process for semiconductors is highly complex, we may produce products whose design deviates from published specifications. In addition, one or more of our products may be found to contain production defects after we have already shipped such products. These production defects could be caused by either raw materials or errors in the production process. If errors or production defects are discovered after we have already shipped one or more of our products in volume, we could be materially adversely affected in one or more of the following ways:

- replacements or recalls could impose substantial costs on us;
- rumors, false or otherwise, may be circulated by the press and other media, which could cause a decrease in sales of our products; and
- customers or end users may file suits, or assert other legal claims against us, alleging damages caused by defective products or errors in products. If we do not successfully defend such suits, we could be required to pay substantial damages. Even if we prevail in suits filed by customers or end users, we may be required to expend significant funds in defense.

Changes in technologies or consumption patterns could reduce the demand for our products.

As a result of technological changes, from time to time our customers change the design of their products so as not to include our products, which may have a negative impact on our net sales. Because we do not have long-term supply contracts with most of our customers, changes in the designs of their products can have sudden and significant impacts on our sales. Reduced sales due to customer design changes have harmed us in the past, and additional customer design changes could result in lower revenues in the future.

We may forecast the future demand for our products incorrectly and produce excess or insufficient inventories of particular products, which may adversely affect our results of operations.

Since we must order products and build inventory substantially in advance of product shipments, we may forecast incorrectly and produce excess or insufficient inventories of particular products. The ability of our customers to reschedule or cancel orders without significant penalty could adversely affect our liquidity, as we may be unable to adjust our purchases from our wafer suppliers to match any customer changes and cancellations. As part of our business strategy, we maintain a substantial inventory of sorted wafers in a die bank but limit our investment in finished goods. We may have adequate wafer inventory to meet customer needs but may be unable to finish the manufacturing process prior to the delivery date specified by the customer. Demand for our products is volatile and customers often place orders with short lead times. Our inventory may not be reduced by sufficient demand of customer orders and in the future we may produce excess quantities of our products.
It is our policy to fully write down all inventories that we do not expect to be sold in a reasonable period of time. We may suffer reductions in values of our inventories in the future and we may be unable to liquidate our inventory at acceptable prices. To the extent we have excess inventories of particular products, our operating results could be adversely affected by charges to cost of revenues that we would be required to recognize due to significant reductions in demand for our products or rapid declines in the market value of our inventory, resulting in inventory write downs or other adverse consequences.

We have implemented measures to consolidate our activities and/or significantly reduce our costs, and we may be required to implement additional measures depending upon our future revenues and operating results.

In the past, we have implemented measures designed to consolidate our activities and/or reduce our costs, including during the three years ended March 31, 2009. These cost reduction efforts have included:

- transferring our production test operations currently performed in our Philippines facility to third party suppliers;
- consolidation of our research and development activities including the closure of design and development sites in Shanghai, China and Seattle, Washington;
- restructuring our manufacturing operations, which has included closing and subsequently outsourcing all of our wafer fabrication, assembly, wafer test and final test operations and consolidating probe and final test operations, as well as certain customer service and accounting functions at our Philippines site;
- refocusing our strategic priorities;
- reallocating personnel and responsibilities to better utilize human resources;
- reducing our worldwide workforce; and
- instituting temporary office and facility shutdowns.

Cost reduction measures may not increase our efficiency or lead to profitability. In the past, we have reduced our spending on research and development. Reducing research and development spending could harm our ability to introduce new products in the future. If our revenue or operating results significantly decline in the future, we may be required to institute further cost reduction measures.

From time to time, we evaluate our strategic alternatives with respect to our facilities and we may take actions which may result in the occurrence of accounting charges. Some or all of these charges may be non-cash. Such charges would have a negative impact on our GAAP profitability and may have a negative impact on our cash balance.

***As a result of our recent disposition of assets, costs associated with being a public company will constitute a larger portion of our overheard*.**

As a public company, we have incurred and will continue to incur significant accounting, legal and other expenses. As a result of the sale of our universal remote control and secured transaction processor businesses to Maxim and UEI, our financial compliance and legal costs will necessarily constitute a larger portion of our overhead making profitability difficult to attain.

We are subject to various environmental laws and regulations that could have a material adverse effect on us.

Until 2005, we operated wafer fabrication activities in our Nampa, Idaho facilities. Until February 2006, we owned an 8-inch wafer manufacturing facility and until April 2007, we owned a 5-inch wafer manufacturing facility. Our manufacturing processes required us to use various hazardous substances, and, as a result, we are subject to a variety of environmental laws and regulations governing the storage, use, emission, discharge and disposal of, and human exposure to, such substances. In particular, the process of manufacturing silicon wafers used large amounts of corrosive and other hazardous chemicals and huge quantities of distilled, de-ionized water. Any failure by us to control the use of, or adequately restrict the discharge of, hazardous substances could subject us to future liabilities that could materially harm our business, have a materially adverse affect on our financial condition and results of operations, including under laws and regulations that impose liability and clean-up responsibility for releases of hazardous substances into the environment. Subsequent to the ceasing of wafer manufacturing activities in these facilities, the facilities were cleaned and prepared for sale and the equipment was decommissioned and sold. We no longer conduct manufacturing activities in Nampa, Idaho.

With respect to environmental remediation, we could incur substantial costs for the clean up of contaminated properties, either those we own or operate or to which we have sent wastes in the past. Under certain of these laws and regulations, current or previous owners or operators of property may be liable for cleanup costs and other damages without regard to whether they knew of, or caused, the contamination. The presence of, or failure to remediate, contamination could materially adversely affect the value of, and the ability to transfer or encumber, our property. In addition, we may be required to incur significant expense in connection with governmental investigation of environmental or employee health and safety matters.

We may engage in acquisitions and other forms of business combinations or partnerships that could materially adversely affect our operating results, dilute our stockholders' equity, or cause us to incur additional debt or assume contingent liabilities.

To increase our business and maintain our competitive position, we have made acquisitions in the past and may do so in the future. Acquisitions and other forms of business combinations or partnerships involve a number of risks that could harm our business and result in the acquired business not performing as expected, including:

- insufficient experience with technologies and markets in which the acquired or combined business is involved, which may be necessary to successfully operate and integrate the business;
- problems integrating the acquired or combined operations, personnel, technologies or products with the existing business and products;
- diversion of management time and attention from our core business to the acquired or combined business;
- potential failure to retain key technical, management, sales and other personnel of the acquired or combined business;
- difficulties in retaining relationships with suppliers and customers of the acquired or combined business; and
- subsequent impairment of the acquired or combined assets, including intangible assets.

In addition, acquisitions and other forms of business combinations or partnerships could require investment of significant financial resources and may require us to obtain additional equity financing, which may dilute our stockholdersô equity, or to incur additional indebtedness.

Acts of war or terrorism could harm our business.

The long-term effects of potential terrorist attacks on the world economy and our business are unknown, but could be material to our business. Terrorist acts or acts of war, whether in the United States or abroad, also could cause damage or disruption to our business, our suppliers, our freight carriers, or our customers, or could create political or economic instability, any of which could have a material adverse effect on our business.

Failure to achieve and maintain effective internal control over financial reporting could have a material adverse effect on our business and stock price.

Failure to achieve and maintain effective internal control over financial reporting in accordance with rules of the Securities and Exchange Commission promulgated under Section 404 of the Sarbanes-Oxley Act of 2002 (the ñSarbanes-Oxley Actò), or failure to maintain adequate disclosure controls and procedures, could harm our business and operating results and/or result in a loss of investor confidence in our financial reports, which could in turn have a material adverse effect on our business and stock price.

Change in fiscal calendar and Sarbanes-Oxley Section 404 report.

On December 29, 2005, our Board of Directors unanimously adopted resolutions to change our fiscal year end from December 31 to March 31. We revised our fiscal year so that our audit work could be performed during non-peak periods with our independent registered public accountants, which has resulted in and we believe will result in cost savings over the long-term. During the on-going reviews of our control environment and our internal controls, as part of our review for the three-month period ended December 31, 2005, we identified deficiencies in our information technology controls, including the need to better segregate duties as it relates to the use of our Oracle Information Systems modules and to improve our General Computing Controls compliance and documentation. We have completed a thorough review of our control environment and have made improvements to our information technology controls in the areas where these deficiencies were identified. We believe we have adequately remediated our information technology environment and controls and results of our testing have not uncovered any errors. Our auditors have not performed a formal review of our control environment and it is possible that material weaknesses or deficiencies exist.

Changes in securities laws and regulations may increase our costs.

The Sarbanes-Oxley Act has previously required us to make changes to some of our corporate governance practices. The Sarbanes-Oxley Act requires annual management assessments of the effectiveness of a companyôs internal controls over financial reporting and also a report by a companyôs independent registered public accounting firm assessing the effectiveness of such companyôs internal controls over financial reporting. The Securities and Exchange Commission extended the dates for initial compliance with the internal control reporting requirements mandated by Section 404 of the Sarbanes-Oxley Act for filers that do not meet the definition of either an ñaccelerated filerò or a ñlarge accelerated filer.ò Under the extension, a company that does not meet the definition of either an ñaccelerated filerò or a ñlarge accelerated filer,ò as these terms are defined in Rule 12b-2 under the Exchange Act, is not required to comply with the requirement to provide the auditorôs attestation report on internal auditing over financial reporting until it files an annual report for its first fiscal year ending on or after December 15, 2009. The measurement criteria for determining filing status, was based on our market capitalization as of September 29, 2007, at which time, our market capitalization was below the defined threshold for accelerated filers. For the fiscal year ended March 31, 2009, we did not meet the definition of either an ñaccelerated filerò or a ñlarge accelerated filer,ò as those terms are defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended, for the purposes of compliance with Section 404 of the Sarbanes-Oxley Act. Thus, under the extension, beginning with our fiscal year 2010, we will be required to provide an auditorôs attestation report on internal controls over financial reporting, which will substantially increase our general and administrative expenses.

Changes in our effective tax rate may reduce our net income in future periods.

A number of factors may increase our future effective tax rates, 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;
- increases in expense not deductible for tax purposes, including write-offs of acquired in-process R&D and impairments of goodwill in connection with acquisitions;
- changes in available tax credits;
- changes in share-based compensation;
- changes in tax laws or the interpretation of such tax laws, and changes in generally accepted accounting principles;
- the repatriation of non-U.S. earnings for which we have not previously provided for U.S. taxes; and
- challenges to the transfer pricing policies related to our global supply chain management structure.

At any given time, the Company is likely to have multiple year examinations open with federal, state, and foreign taxing authorities. If the taxing authorities were to successfully challenge a material tax position, we could become subject to higher taxes and our earnings would be adversely affected. In addition, proposals for changes in U.S. tax laws that may be adopted in the future, including recently announced proposals which would substantially reduce or eliminate our ability to defer the income generated by the earnings of our foreign subsidiaries, could subject us to higher taxes or result in changes to tax law provisions that currently provide favorable tax treatment

Changes in accounting principles generally accepted in the United States may materially adversely affect our reported financial results or otherwise harm our business.

We prepare our financial statements in conformity with accounting principles generally accepted in the United States. These accounting principles are subject to interpretation by the Financial Accounting Standards Board, the American Institute of Certified Public Accountants, the Securities and Exchange Commission and various bodies formed to interpret and create appropriate accounting policies. A change in these policies or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change.

Changes in our business conditions could result in impairment of our goodwill.

In accordance with Statement of Financial Accounting Standards No.142, ñAccounting for Goodwill and Other Intangible Assetsò (SFAS 142), the Company must perform at least an annual testing of the Companyôs stated value of its net assets including goodwill and other intangible assets in relation to the implied fair market value of the Company. If the Companyôs market capitalization or fair market value declines, we may be required to record financial adjustments to the stated values of our goodwill and other intangible assets, resulting in a material adverse effect on our financial condition and results of operations. Our year end testing analysis of market capitalization as compared to our book value indicated no impairment in our Goodwill. Analysis of our continuing businesses estimated future cash flows resulted in a write off of the remaining balance of the intangibles asset value as of March 31, 2009. Our Goodwill had an aggregated net book value of $2.2 million at March 31, 2009.

Provisions in our organizational documents and Delaware law could discourage acquisition proposals or delay a change in control that would be beneficial to our stockholders.

Our amended and restated certificate of incorporation and bylaws contain anti-takeover provisions that could make it more difficult for a third party to acquire control of us, even if that change in control would be beneficial to our stockholders. These provisions include:

- providing for a classified board of directors with staggered terms;
- limiting the persons who may call special meetings of stockholders; and
- prohibiting stockholders from taking action by written consent.

In addition, provisions of Delaware law may discourage, delay or prevent someone from acquiring or merging with us.

Our directors, named executive officers and our two largest stockholders, who beneficially own approximately 36% of our common stock in the aggregate, may have interests that conflict with the interests of our other stockholders.

Our directors and named executive officers, together with our largest stockholders, UBS Willow Management, L.L.C., and funds managed by Capital Research and Management Company, beneficially owned approximately 36% of our outstanding common stock, in the aggregate, as of March 31, 2009. As a result of their ownership and positions, our directors and named executive officers, together with UBS Willow Management and Capital Research and Management Company, collectively are able to significantly influence all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. Such concentration of ownership may also have the effect of delaying or preventing a change in control. If the ownership of our common stock continues to be highly concentrated, it may prevent you and other stockholders from influencing significant corporate decisions. The investment objectives of our largest institutional stockholders may differ from those of our other stockholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

San Jose, California
Our corporate headquarters are located in an approximately 42,000 square foot facility in San Jose, California, which we occupied effective July 2007 under a lease term of five years with an option to renew for two three-year periods. The lease includes an expansion opportunity for an additional 7,000 square feet, upon which we have right of first refusal. We have consolidated our operations onto one floor or approximately 14,000 square feet of the facility and are currently marketing the remaining 28,000 square feet for sublease.

Meridian, Idaho
In May of 2004, we entered into a 5 year lease for a 15,500 square foot facility in Meridian, Idaho, which may be extended at our option for an additional three years. This facility is used as our Idaho Technology Center and supports our foundry supplier partnerships, product and design engineering, failure analysis and customer manufacturing support activities.

Manila, Philippines
In November 2008, we renewed the lease of our 140,000 square foot facility in the Philippines for a period of 5 years expiring March 2014. This facility is used for product testing, test development and global support activities which includes inventory warehousing and management, logistics, customer service and support, manufacturing planning, Finance and IT.

El Dorado Hills, CA
In May 2008, we entered into a 2 year lease for a 3,000 square foot facility in El Dorado Hills, California, expiring in June 2010 with the option to renew for an additional 3 years. The facility is used for marketing and applications activities.

Short-Term Leases
We have short-term leases for sales offices located in the U.S., Canada, England, and the Peopleœs Republic of China, Singapore and Taiwan.

Currently, we believe that all of our properties are adequate to meet our needs.

ITEM 3. LEGAL PROCEEDINGS

On August 11, 2005, Microchip Technology, Inc. (ñMicrochipò) filed a patent infringement claim against us in the U.S. District Court of Arizona (case number CV05-2406-PHX-MHM). Microchip alleges that we have infringed, and currently infringe, its patents numbered 5,847,450, 6,696,316 and 6,483,183. Microchip claims that unspecified products of ours, including the Z8 Encore! XP 4K Series of products, infringe these patents and is seeking preliminary and permanent injunctive relief, unspecified damages and costs, including attorneysô fees. We filed a response to the claims on September 15, 2005 generally denying the claims and challenging the validity of the patents. On January 10, 2006, we filed a request for patent re-examination with the U.S. PTO, which was granted in February and March 2006 for all 3 patents. On April 11, 2008, we received a notice that all of Microchipœs claims under these three patents have been rejected by the U.S. PTO. After this favorable ruling, Microchip filed appeal notices in the U.S. PTO in May 2008. We do not believe it is feasible to predict or determine the outcome or resolution of this litigation at this time. We believe we have meritorious defenses and will defend ourselves against these claims vigorously. We may incur substantial expenses in our defense against these claims. In the event of a determination adverse to us, we may incur substantial monetary liabilities and be required to change our business practices. Either of these could have a material adverse effect on our financial position, results of operations and/or cash flows.

On December 1, 2006, we filed a patent infringement claim against Altera Corporation ("Altera") and Actel Corporation ("Actel") in the U.S. District Court of California (civil docket number 4:06-cv-07388-SBA). We alleged that Altera and Actel have infringed our patent numbered 4,670,749 which we believe to be the fundamental patent for programmable logic. We claimed that Altera's and Actel's products infringed these patents and we sought unspecified damages and costs, including attorneys' fees. Actel settled their case with us on June 11, 2007 for an undisclosed amount.

On May 23, 2008, Altera filed a patent infringement claim against us in the U.S. District Court of Texas (civil action number 2:08-CV-218). Altera alleged that we infringed its patents numbered 6,097,211, 6,147,511 and 6,314,550. Altera claimed that unspecified products of ours, including the eZ80 and Zneo series of products, infringed these patents and sought preliminary and permanent injunctive relief, unspecified damages and costs, including attorneys' fees. On March 31, 2009, we agreed with Altera to settle all pending litigation. As part of this agreement, we made a one-time payment of an undisclosed amount to Altera and both parties have agreed to dismiss their patent infringement lawsuits.

We are participating in other litigation and responding to claims arising in the ordinary course of business. We intend to defend ourselves vigorously in these other matters. Our management believes that it is unlikely that the outcome of these other matters will have a material adverse effect on our consolidated financial statements, although there can be no assurance in this regard.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

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

PRICE RANGE OF COMMON STOCK

Our Common Stock

Our common stock is traded on the NASDAQ Global Market under the symbol ñZILG.ò The following table sets forth the high and low per share trading prices by quarter on the NASDAQ Global Market.

		High		Low
2008 Fiscal Year				
First Quarter April 1 ï June 30, 2007	$	6.08	$	4.30
Second Quarter July 1 ï September 29, 2007	$	5.50	$	3.20
Third Quarter September 30 ï December 29, 2007	$	3.73	$	2.30
Fourth Quarter December 30, 2007 ï March 31, 2008	$	3.90	$	2.68
2009 Fiscal Year				
First Quarter April 1 ï June 28, 2008	$	4.37	$	3.00
Second Quarter June 29 ï September 27, 2008	$	3.99	$	2.84
Third Quarter September 28 ï December 27, 2008	$	3.40	$	1.40
Fourth Quarter December 28, 2008 ï March 31, 2009	$	2.96	$	1.76

EQUITY COMPENSATION PLAN INFORMATION

The following is a summary of the shares reserved for issuance pursuant to outstanding options, rights or warrants granted under our equity compensation plans as of March 31, 2009:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights Column A		Weighted-average exercise price of outstanding options, warrants and rights Column B	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in Column A) Column C
Equity compensation plans approved by security holders (1&2)	1,814,563	$	4.87	2,225,978
Equity compensation plans not approved by security holders	-		-	-
Total	1,814,563	$	4.87	2,225,978

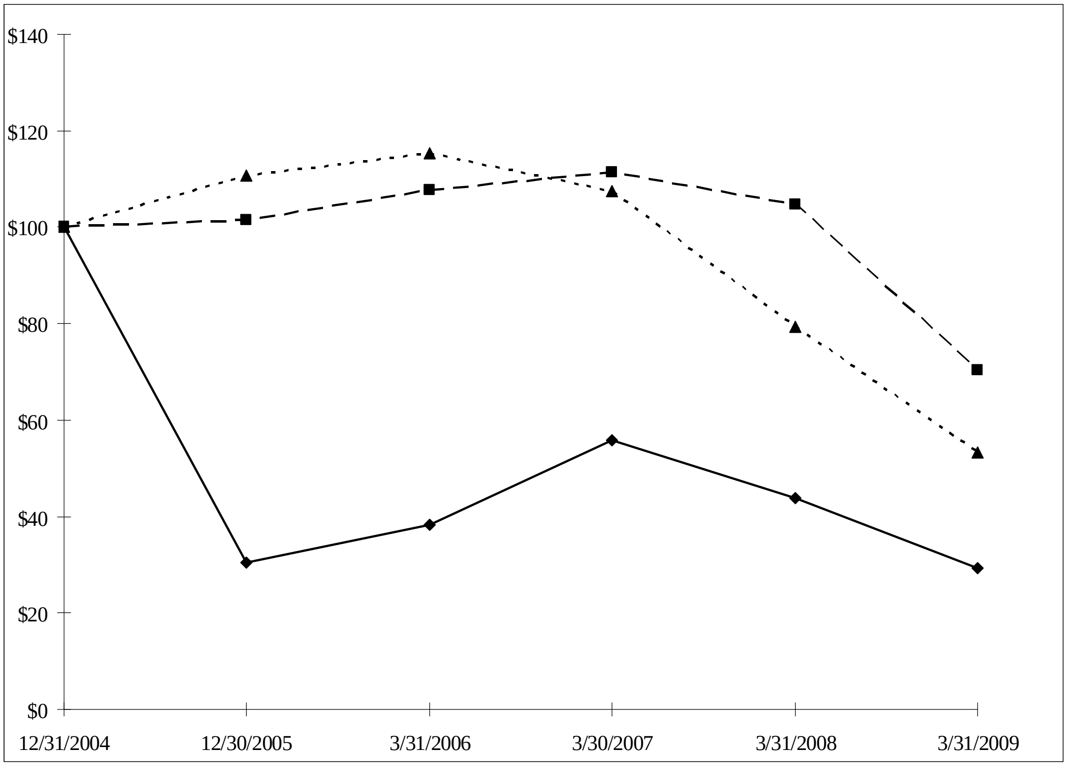
(1) The ZiLOG 2002 Omnibus Stock Incentive Plan was originally approved under the terms of our plan of reorganization on May 13, 2002.

(2) The ZiLOG 2004 Omnibus Stock Incentive Plan was approved by stockholders on February 12, 2004 and the amended ZiLOG 2004 Omnibus Stock Incentive Plan was approved by stockholder of September 6, 2007.

As of March 31, 2009, we had approximately 29 holders of record of our common stock. We have not paid any dividends and currently intend to retain any future earnings for investment in our business.

PERFORMANCE MEASUREMENT COMPARISON

The following graph shows the change in our cumulative total stockholder return for the period from December 31, 2004 until the end of fiscal 2009, based upon the market price of our common stock, compared with: (i) the cumulative total return on the Nasdaq Composite Index and (ii) the Philadelphia Stock Exchange Semiconductor Sector Index. The graph assumes a total initial investment of $100 as of December 31, 2004, and shows a ñTotal Returnò that assumes reinvestment of dividends, if any, and is based on market capitalization at the beginning of each period. The performance on the following graph is not necessarily indicative of future stock price performance.



Legend

Symbol	Index Description	12/31/2004	12/30/2005	3/31/2006	3/30/2007	3/31/2008	3/31/2009
———	ZiLOG Inc.	100	30.5	38.4	55.9	43.8	29.4
— — —	NASDAQ Composite Index	100	101.4	107.6	111.3	104.8	70.3
- - - -	Phil Semiconductor Index	100	110.7	115.3	107.4	79.4	53.3

The performance graph above shall not be deemed ñfiledò for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the ñExchange Actò) or otherwise subject to the liabilities under that Section and shall not be deemed to be incorporated by reference into any filing of ZiLOG under the Securities Act of 1933, as amended or the Exchange Act.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data set forth below should be read in conjunction with the section entitled ñManagementôs Discussion and Analysis of Financial Condition and Results of Operations,ò our consolidated financial statements and the notes to those statements appearing elsewhere in this Form 10-K. The consolidated statement of operations data for the fiscal years ended March 31, 2009, March 31, 2008 and March 31, 2007, and the consolidated balance sheet data as of March 31, 2009 and March 31, 2008 are derived from our respective consolidated financial statements included elsewhere in this Form 10-K, which have been audited by Armanino McKenna LLP, an independent registered public accounting firm.

Effective December 29, 2005, we changed our fiscal year end from December 31 to March 31. Our interim results are based on fiscal quarters of approximately thirteen weeks in duration ending on the closest Saturday to each calendar quarter end, with the exception of the last quarter, which ends on March 31 beginning in fiscal 2006. The operating results for any interim period are not necessarily indicative of results for any subsequent period or the full fiscal year.

As a result of the sale of the universal remote control and secured transaction processor businesses to Maxim and UEI in February 2009 and in accordance with Statement of Financial Accounting Standards No. 144, ñAccounting for the Impairment or Disposal of Long Lived Assetsò, the assets and liabilities, results of operations and cash flows related to the sale businesses, have been classified as discontinued operations in the consolidated financial statements for all periods presented through the date of the sale. Cash flows associated with the discontinued operations have been segregated in the consolidated statements of cash flows as separate line items within operating, investing and financing activities. As a result, our historical financial statements have been restated to exclude assets, liabilities and results of operations and cash flows related to the discontinued operations. Restatement of these balances may make reconciliation or reference to previously filed financial statements difficult.

(In thousands, except per share data)	Twelve Months Ended Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007	Mar. 31, 2006	Dec. 31, 2004
Consolidated Statements of Operations Data:					
Net sales	$36,157	$44,644	$58,026	$58,654	$73,973
Cost of sales	21,815	25,035	29,513	33,109	37,993
Gross margin	14,342	19,609	28,513	25,545	35,980
Gross margin percent of sales	39.7%	43.9%	49.1%	43.6%	48.6%
Operating expenses:					
Research and development	6,265	8,143	12,528	12,952	13,305
Selling, general and administrative	19,353	19,279	22,028	23,043	29,077
Special charges, credits and reorganization items, net (1)	6,318	1,974	2,471	2,416	5,935
Amortization of intangible assets	801	961	1,284	1,984	4,160
Total operating expenses	32,737	30,357	38,311	40,395	52,477
Operating loss from continuing operations	(18,395)	(10,748)	(9,798)	(14,850)	(16,497)
Other income (expense):					
Interest income	188	819	1,112	898	343
Interest expense	(40)	-	-	(13)	(249)
Other income (expense), net	378	(332)	(19)	(122)	85
Total other income (expense), net	526	487	1,093	763	179
Loss on continuing operations before provision for income taxes	(17,869)	(10,261)	(8,705)	(14,087)	(16,318)
Provision for income taxes	181	853	1,547	1,423	1,063
Net loss from continuing operations	($18,050)	($11,114)	($10,252)	($15,510)	($17,381)
Net income (loss) from discontinued operations	(372)	1,823	1,214	(1,377)	(1,076)
Gain from sale of discontinued operations, net of tax	21,606	-	-	-	-
Net income (loss)	$3,184	($9,291)	($9,038)	($16,887)	($18,457)
Basic and diluted net loss per share - continuing operations	($1.06)	($0.66)	($0.62)	($0.95)	($1.09)
Basic and diluted net income (loss) per share - discontinued operations	(0.02)	0.11	0.07	(0.08)	(0.07)
Basic and diluted gain on sale of discontinued operations per share	1.27	0.00	0.00	0.00	0.00
Basic and diluted net income (loss) per share	$0.19	($0.55)	($0.54)	($1.03)	($1.16)
Weighted-average shares, basic (2)	17,031	16,893	16,665	16,388	15,976
Weighted-average shares, diluted (2)	17,114	16,893	16,665	16,388	15,976

(1) Special charges, credits and reorganization items consist of asset impairments, restructuring charges, net reimbursement of MOD III sustaining and maintenance costs and debt restructuring fees in all periods presented.

(2) Share data has been restated for a 1 for 2 reverse split effected in 2004.

(In thousands)	Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007	Mar. 31, 2006	Dec. 31, 2004
Consolidated Balance Sheets Data:					
Cash and cash equivalents	$32,230	$16,625	$19,390	$26,954	$37,678
Long term investments	$1,100	$1,925	-	-	-
Working capital	$26,827	$14,355	$21,901	$24,603	$41,711
Total assets	$51,652	$47,840	$55,803	$71,630	$98,073
Current liabilities	$18,088	$19,443	$19,407	$23,875	$24,844
Total liabilities	$20,026	$20,961	$21,056	$29,773	$34,083
Stockholdersô equity	$31,626	$26,879	$34,747	$41,857	$63,990

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Some of the statements under this heading may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors including those set forth in the section entitled "Risk Factors" and in other sections of this Form 10-K.

The following is management's discussion and analysis of financial condition and results of operations of the Company and its subsidiaries for the fiscal years ended March 31, 2009, March 31, 2008 and March 31, 2007. This discussion and analysis should be read in conjunction with the section entitled "Selected Consolidated Financial Data" and the consolidated financial statements and notes thereto included elsewhere herein. Management's discussion and analysis provides information concerning our business environment, consolidated results of operations and liquidity and capital resources.

We prepare and release quarterly unaudited financial statements prepared in accordance with generally accepted accounting principles or GAAP. We present EBITDA amounts to reflect non-GAAP measure of liquidity. EBITDA reflects our Earnings Before Interest, Taxes, Depreciation and Amortization. We believe the disclosure of such information helps investors more meaningfully evaluate our liquidity position by the elimination of non-cash related items, such as depreciation and amortization. We believe our investor base regularly uses EBITDA as a measure of the liquidity of our business. Our management uses EBITDA as a supplement to cash flow from operations as a way to assess the cash generated from our business available for capital expenditures and debt service. However, we recommend that investors carefully review the GAAP financial information included as part of our Quarterly Reports on Form 10-Q, our annual reports on Form 10-K and our quarterly earnings release, compare GAAP financial information with the non-GAAP financial results disclosed in our quarterly earnings releases and investor calls, and read the associated reconciliation.

Effective December 29, 2005, we changed our fiscal year end from December 31 to March 31. Our interim results are based on fiscal quarters of thirteen weeks in duration ending on the last Saturday of each calendar quarter with the exception of the last quarter, which ends on March 31 beginning in fiscal 2006. The operating results for any interim period are not necessarily indicative of results for any subsequent period or the full fiscal year.

Overview

Founded in 1973, we are a global supplier of 8-bit micrologic semiconductor devices. We design, develop and market various families of devices in this market segment. Using proprietary technology that we have developed over our 30-year operating history, we provide semiconductor integrated circuit devices that our customers design into their end products. Our devices often include related application software and typically combine a microprocessor with memory and various peripheral functions on a single device. Our products enable a broad range of consumer and industrial electronics manufacturers to control the functions and performance of their products. For example, some typical applications include devices that control the speed of a motor, security systems and battery chargers. In addition to our micrologic devices, we sell other integrated circuit devices that have a wide variety of uses, including the processing and transmission of information for communications and consumer electronics products. These devices include serial communication controllers, modems, IrDA transceivers, TV display controllers and personal computer peripheral controllers. Historically, we performed wafer fabrication foundry services for third parties, which were terminated in 2004.

During 2000, we began to experience declining sales. During the first half of calendar year 2001, James M. Thorburn joined the Company as Chief Executive Officer (ñCEOò) and Chairman of the Board of Directors to restructure our operations, financials and product portfolio with the goals of: i) eliminating the high interest debt that we had at that time, ii) positioning the Company for growth, iii) transferring and outsourcing manufacturing to third party suppliers and partners and iv) returning the Company to profitability. In 2002, we completed our recapitalization whereby we eliminated the debt and established the MOD III special purpose subsidiary as a result of our voluntary pre-packaged plan of reorganization under Chapter 11 of the United States Bankruptcy Code. In 2002 and 2004 we closed our wafer manufacturing facilities in Nampa, Idaho and completed the transfer of wafer production to third party suppliers in the U.S. and Taiwan. In 2004, we issued stock, raised approximately $24.4 million in capital and registered our common stock to trade on the Nasdaq under the ticker symbol ñZILGò. In August 2006, Mr. Thorburn resigned his position as CEO and Chairman of the Board of Directors.

In January 2007, under the leadership of our current CEO, Darin Billerbeck, we completed a comprehensive strategic plan update. One of the key actions resulting from this plan update was the decision to consolidate our engineering activities in order to better concentrate our core competencies and improve our product development cycle time while reducing our overall research and development spending. Our business model is structured around our fabless manufacturing approach and our market focus will be on those opportunities were we can best leverage our technology. We will continue to service the 8 -bit markets where more complexity and greater value can be obtained by the customer. We are a trusted supplier of application specific, embedded system-on-chip (SoC) solutions for the industrial and consumer markets. From its roots as an award-winning architect in the microprocessor and microcontroller industry, we have evolved to become a leader in providing customized embedded solutions including silicon, SoCs, single board computers, application specific software stacks and development tools that allow embedded designers quick time to market in areas such as energy management, monitoring and metering and motion detection.

During fiscal 2009, we experienced a significant reduction in sales reflecting lower demand for product and the global worldwide recession. Following a review of our strategy in light of an anticipated continuation of contraction in the market place, on February 18, 2009, we sold our universal remote control and secured transaction processor businesses to Maxim and UEI for approximately $31 million in cash including $3.1 million that is held in escrow to satisfy any losses incurred by Maxim or UEI that may result from inaccuracies in our representations and warranties in the acquisition agreement or our failure to fulfill certain obligations in the acquisition agreement. The escrow is scheduled to be released 50% after 6 months and 100% after 12 months. A gain on the sale of $21.6 million was recorded. In accordance with Statement of Financial Accounting Standards No. 144, ñAccounting for the Impairment or Disposal of Long Lived Assetsò, the assets and liabilities, results of operations and cash flows related to the sale businesses, have been classified as discontinued operations in the consolidated financial statements for all periods presented through the date of the sale. Cash flows associated with the discontinued operations have been segregated in the consolidated statements of cash flows as separate line items within operating, investing and financing activities. As a result, our historical financial statements have been restated to exclude assets, liabilities and results of operations and cash flows related to the discontinued operations. Restatement of these balances may make reconciliation or reference to previously filed financial statements difficult.

Stock Repurchase Programs

On April 17, 2003, our Board of Directors approved the 2003 stock repurchase program under which we could repurchase up to 500,000 shares of our outstanding common stock at market value. As of March 31, 2009, the Company had repurchased 405,164 shares under this program at a net aggregate cost of $2.1 million.

On July 29, 2004, our Board of Directors approved the 2004 stock repurchase program under which we could repurchase up to $5.0 million in market value of our outstanding shares of common stock. Pursuant to this program, during 2004 we purchased 572,100 shares of our common stock at a net aggregate cost of $4.4 million.

Other stock repurchases were approved by the Board of Directors and include; 1) the repurchase of 92,735 shares of common stock from a former officer in 2004 at a fair market purchase price of $6.20 per share in consideration for the repayment of loans payable to us totaling $0.6 million; 2) the repurchase of 17,389 shares from former employees during fiscal 2006, as consideration for the repayment of loans payable to us totaling less than $0.1 million; and 3) the repurchase of 73,151 shares during fiscal 2008 from our Chief Financial Officer Perry J. Grace, as consideration for the repayment of loans payable to us totaling less than $0.3 million. Additionally, during fiscal 2009, the Company repurchased 23,313 shares of common stock from its former Chief Technical Officer, Norm Sheridan and 23,261 shares of common stock from its Chief Financial Officer, Perry Grace having a combined value of approximately $0.1 million to cover withholding taxes in connection with the release of vested shares of common stock.

As of March 31, 2009, other stock repurchases totaled 229,849 shares and total stock repurchases under all plans were 1,207,113 with a net aggregate cost of $7.5 million as summarized below:

	Treasury Shares Outstanding		
	Mar. 31, 2009	**Mar. 31, 2008**	**Mar. 31, 2007**
2003 Repurchase Program	405,164	405,164	405,164
2004 Repurchase Program	572,100	572,100	572,100
Other Repurchases	229,849	183,275	110,124
Ending Balance	1,207,113	1,160,539	1,087,388
Net aggregate cost ($000's)	$ 7,563	$ 7,456	$ 7,174

Critical Accounting Policies and Estimates

We believe our critical accounting policies are as follows:

- Å estimating sales returns and allowances;
- Å estimating allowance for doubtful accounts;
- Å estimating write-downs of excess and obsolete inventories;
- Å asset impairments;
- Å stock-based compensation and,
- Å income taxes and deferred tax estimates.

A brief description of each of these policies is set forth below.

On an on-going basis, we evaluate our estimates, including those related to sales returns, allowance for doubtful accounts, inventory write-downs and asset impairments. We base our estimates on historical trends and various other assumptions that we believe to be reasonable at the time the estimates are made. Actual results could differ from those estimates.

Estimating Sales Returns and Allowances

Our net sales to direct customers consist of gross product sales reduced by expected future sales returns and price allowances. To estimate sales returns and price allowances, we analyze historical returns and allowance activity to establish a baseline reserve level. We then evaluate whether there are any underlying product quality or other customer specific issues that require additional specific reserves above the baseline level. Because the reserve for sales returns and price allowances is based on our judgments and estimates, our reserves may not be adequate to cover actual sales returns and price allowances. If our reserves are not adequate, our net sales and accounts receivable could be materially adversely affected.

Our net sales to distributors that have rights of return and/or price protection allowances on unsold merchandise held by them are deferred until such products are resold by the distributors to end users of our devices. At the time that we recognize distributor re-sales as revenue, we record a reserve for estimated price adjustments that the distributors will reclaim from us on the merchandise they resold to end users. These reserves are recorded as a reduction to our net sales and a reduction to our accounts receivable. To estimate this distributor price adjustment reserve, we analyze our historical price adjustment payments, price adjustments taken by distributors but not yet processed by us and pending price adjustments that have been authorized by us but have not yet been claimed by our distributors. Because our distributor allowance reserve is based upon our judgments and estimates, such reserves may not be adequate to cover actual distributor price allowances. If our reserves are not adequate, our net sales and accounts receivable could be materially adversely affected.

Estimating Allowance for Doubtful Accounts

We maintain an allowance for losses we may incur as a result of our customersô inability to make required payments. Any increase in the allowance results in a corresponding increase in our selling, general and administrative expenses. In establishing this allowance, and then evaluating the adequacy of the allowance for doubtful accounts, we consider the aging of our accounts receivable, historical bad debts, customer concentrations, customer credit-worthiness and, to a lesser extent, current economic trends and changes in our customer payment terms. Historically, we have not experienced material bad debt write-offs. If the financial condition of one or more of our customers unexpectedly deteriorates, resulting in their inability to make payments, or if we otherwise underestimate the losses we will incur as a result of our customersô inability to pay us, we could be required to increase our allowance for doubtful accounts which, could materially adversely affect our operating results.

Estimating Write-Downs of Excess and Obsolete Inventories

Each inventory component, excluding raw materials, is assessed for excess or obsolescence by using an algorithm that we have established. This algorithm is based on historical trends, demand forecasts and inventory age. We review the result of this algorithm and generally reserve work-in-process inventories based upon aging and finished goods inventory quantities in excess of our current backlog or historical demand. In addition to analyzing the results of our reserve algorithm calculations, we also review known exposures, market conditions and other relevant factors to determine whether our inventory reserves are appropriate based on our best estimates. Reserves for excess and obsolete inventories are reflected as a reduction to inventory values in the accompanying consolidated balance sheets, and an increase in cost of sales in the accompanying consolidated statements of operations. If actual market conditions or customer demand patterns are less favorable than, or inconsistent with our assumptions, we may be required to take further write-downs of our inventory value, which could materially adversely impact our cost of sales and operating results.

Asset Impairments

We apply the provisions of SFAS 144, ñAccounting for the Impairment or Disposal of Long-Lived Assetsò and SFAS 142, ñGoodwill and Other Intangible Assets.ò We evaluate long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include the following:

Å significant changes in the manner of our use of the acquired assets;

Å decrease in our market value below our stockholderôs equity book value;

Å significant changes in the strategy for our overall business;

Å significant negative industry or economic trends; and

Å periods of operating or cash flow losses.

When we determine that the carrying value of long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, and the undiscounted cash flows estimated to be generated by those assets are less than the assetsô carrying value, the carrying value of the assets are reduced to their estimated fair value. The estimated fair value is usually determined based on an estimate of discounted future cash flows. Asset impairments are recorded as a reduction in the asset value in our consolidated balance sheets and as special charges in our consolidated statements of operations.

The intangible assets created by the adoption of fresh-start accounting on our emergence from bankruptcy in 2002, consist of existing technology and brand name, as well as excess enterprise value, or goodwill. The existing technology and brand name are being amortized based on a pattern-of-use method in proportion to the forecast discounted cash flows from such assets. The goodwill is not subject to amortization.

We evaluate existing technology and brand name whenever events and circumstances indicate that their fair value may be less than their carrying value. Additionally, goodwill is tested for impairment at least annually and more often if events and circumstances indicate that its fair value may be less than its carrying value. We performed the annual impairment test for goodwill in the fourth quarter of fiscal 2009, and we normally perform this test in the fourth quarter of each fiscal year unless the existence of triggering events indicates that an earlier review should be performed.

Adjustments to record impairment of long-lived assets or intangible assets could have a material adverse impact on our financial condition and results of operations in the period or periods in which such impairment is identified.

Stock-Based Compensation

Effective April 1, 2006, the Company adopted Statement of Financial Standard No. 123, ñShare-Based Paymentò (ñSFAS 123Rò) which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options, restricted stock awards and employee stock purchases related to the 2004 Employee Stock Purchase Plan based on estimated fair values. SFAS 123R supersedes the Companyôs previous accounting under Accounting Principles Board Opinion No. 25, ñAccounting for Stock Issued to Employees" (ñAPB 25ò) and Statement of Financial Accounting Standard No. 123, ñAccounting for Stock-Based Compensationò (ñ SFAS 123ò) for periods beginning in fiscal 2007. In March 2005, the SEC issued Staff Accounting Bulletin No. 107, ñShare-Based Payment,ò (ñSAB 107ò) relating to SFAS 123R. The Company has applied the provisions of SAB 107 in its adoption of SFAS 123R. The Company elected to adopt SFAS 123R using the modified prospective transition method utilizing the single option attribution approach, which requires the application of the accounting standards as of April 1, 2006, the first day of the Companyôs fiscal year 2007. In accordance with the modified prospective transition method, the Companyôs prior periods have not been restated to reflect, and do not include, the impact of SFAS 123R. The Companyôs consolidated financial statements as of and for the years ended March 31, 2008 and March 31, 2009 reflect the impact of SFAS 123R.

Accounting for Income Taxes

As part of the process of preparing our consolidated financial statements we are required to estimate our taxes in each of the jurisdictions in which we operate. This process involves us estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our unaudited condensed consolidated balance sheets. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must record an expense within the tax provision included in the condensed consolidated statements of operations.

Management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, and any valuation allowance recorded against our net deferred tax assets. We have established a full valuation allowance against our deferred tax assets at March 31, 2009 based upon our determination that it is more likely than not that all of the deferred tax assets may not be realized in the foreseeable future due to historical operating losses. The net operating losses and research and development tax credit carryovers that make up the vast majority of the deferred tax asset will expire at various dates through the year 2024, with the exception of the California tax credit which can be carried forward indefinitely. Going forward, we will assess the continued need for the valuation allowance. After we have demonstrated profitability for a period of time and begin utilizing a significant portion of the deferred tax assets, we may reverse the valuation allowance, likely resulting in a significant benefit to the statement of operations in some future period. At this time, we cannot reasonably estimate when this reversal might occur, if at all.

Reporting Segments

We conduct our business in one reportable segment to reflect the manner in which our chief operating decision-maker allocates resources and assesses the performance of our business. For convenience and ease of reference, we disclose net sales by region and by channel.

Period Comparisons

Effective December 29, 2005, we changed our fiscal year end from December 31 to March 31. Our interim results are based on fiscal quarters of approximately thirteen weeks in duration ending on the closest Saturday to each calendar quarter end, with the exception of the last quarter, which ends on March 31 beginning in fiscal 2006.

Results of Operations

Our net sales by region and by channel are summarized in dollars for each period indicated, as follows (in thousands):

	Years Ended		
	Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007
Net sales by region:			
Americas	$ 14,288	$ 16,794	$ 22,635
Asia (including Japan)	15,079	20,251	26,051
Europe	6,790	7,599	9,340
Net sales	$ 36,157	$ 44,644	$ 58,026
Net sales by channel:			
Direct	$ 7,507	$ 9,671	$ 14,658
Distribution	28,650	34,973	43,368
Net sales	$ 36,157	$ 44,644	$ 58,026

Other Key Indices

Other key indices relevant in understanding our business and financial performance of our continuing operations include the following metrics:

	As of Mar. 31, 2009	As of Mar. 31, 2008	As of Mar. 31, 2007
Days sales outstanding	17	18	22
Net sales to inventory ratio	9	6	7
Weeks of inventory at distributors	10	8	10
Current ratio	2.5	1.7	2.0

We calculate each of these key metrics based on annual results of operations data and balance sheets data as of the end of the period indicated. Each of these key metrics is described below.

Days sales outstanding (ñDSOsò), is a common metric used to analyze how quickly our customers pay us. This metric is influenced largely by the timing of our customer billings and collections. DSOs for continuing operations were 17 days at March 31, 2009, 18 days at March 31, 2008 and 22 days at March 31, 2007. Our DSOs reflect a high mix of distribution sales and royalty revenue that generally tend to pay faster than the average of our direct customers.

Net sales to inventory ratio is a metric we use to analyze how quickly our investment in inventories is recovered by our sales. This metric may not be comparable to those other companies use to analyze inventory and is not the same as a typical inventory turns ratio. Our net sales to inventory ratio for continuing operations increased from March 31, 2008 to March 31, 2009, on lower sales, at 9 times annual sales, reflecting relatively lower inventories in relationship to lower sales. The increase is reflective of shorter lead times from our suppliers and tight inventory management.

Weeks of inventory at distributors measures the level of inventories on hand at our distributors available for sale to their end customers, and as such, is relative to the level of sales we record for distribution sales. We do not recognize revenue on shipments to distributors who have rights of return and/or price protection on unsold merchandise held by them until our distributors resell our products to their end customers. We generally target 10 to 13 weeks of inventory in the distribution channel to allow these distributors to react to market demand and buffer their cycle time as they reorder new product from us and await delivery. As of March 31, 2009, our distributor inventory levels were at 10 weeks and were within our target range.

Current ratio represents current assets divided by current liabilities and is commonly used to assess a companyôs liquidity. The Company uses this ratio to make spending determinations on discretionary items.

Comparison of Financial Results

Results of Operations from Continuing Operations for the Year Ended March 31, 2009 as compared to the Year ended March 31, 2008.

	Year ended	
	Mar. 31, 2009	Mar. 31, 2008
Net sales	$ 36,157	$ 44,644
Cost of sales	21,815	25,035
Gross margin	14,342	19,609
Percent of sales	40%	44%
Operating expenses:		
Research and development	6,265	8,143
Selling, general and administrative	19,353	19,279
Special charges and credits	6,318	1,974
Amortization of intangible assets	801	961
Total operating expenses	32,737	30,357
Operating loss	(18,395)	(10,748)
Total other income (expense), net	526	487
Loss before provision for income taxes	(17,869)	(10,261)
Provision for income taxes	181	853
Net loss from continuing operations	$ (18,050)	$ (11,114)

Net Sales

Net sales were $36.2 million for the fiscal year ended March 31, 2009, as compared to net sales of $44.6 million for the fiscal year ended March 31, 2008.

Our net sales declined 19% during the year ended March 31, 2009, reflecting the impact of the recessionary trends in the worldwide economy that affected the demand for our products both regionally and within market applications including consumer and industrial type products.

Gross Margin

Cost of sales primarily represents manufacturing costs relating to wafer fabrication, package assembly, product testing operations and logistics costs. Cost of sales fluctuates, depending on materials and services prices from our vendors, manufacturing productivity, product mix, equipment utilization and depreciation. Gross margin on continuing operations was 40% of net sales for the fiscal year ended March 31, 2009, compared to gross margin of 44% for the fiscal year ended March 31, 2008. During the fiscal year ended March 31, 2009, our gross margin decrease was primarily the result of a lower mix of our higher margin traditional 8-bit classic products and associated manufacturing variances from lower volumes. This was partially offset by improved operating efficiencies related to the completion of our production test outsourcing and other cost reduction activities.

We have focused on manufacturing cost controls, yield enhancements and price management and have continued to consolidate and streamline our manufacturing and support activities. We operate with a fully fabless model and outsource all of our wafer manufacturing needs from foundries in the United States and Taiwan. We have the flexibility to use lower geometry fab processes from our suppliers for design, allowing us to reduce the physical size of our flash products, which has allowed us to improve our gross margins on these specific products over time. We have continued to multi-source our product assembly and test activities with several Asian suppliers to enhance our supply source flexibility and obtain continued competitive vendor pricing.

Research and Development Expenses

Research and development expenses were $6.3 million and $8.1 million for the fiscal years ended March 31, 2009 and March 31, 2008, respectively. Research and development spending for the fiscal year ended March 31, 2009 is lower compared to the fiscal year ended March 31, 2008 due to savings associated with our worldwide headcount reductions during the fiscal fourth quarter of 2009 and the completion of certain product development activities. Our design resources are focused on servicing the segments of the 8-bit markets where more complexity and greater value can be obtained from our solutions by the customer.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $19.3 million for the fiscal years ended March 31, 2009 and March 31, 2008, respectively. General sales, marketing and general and administrative expenses decreased as we continued to streamline our global support activities and reduce our general support costs, offset by increased stock compensation expenses. Stock compensation expense increased reflecting the fiscal 2009 incentive compensation plan. The fiscal 2009 incentive plan awarded restricted stock versus cash awards for certain employees based on performance goal achievement for the first half of fiscal 2009. There were no plan payouts or awards for the fiscal 2009 second half. The selling, general and administrative expenses for the fiscal years ended March 31, 2008 included a credit of $0.7 million related to the reversal of stock compensation expense due to the cancellation of certain previously expensed stock options and stock awards.

Special Charges and Credits

Special charges and credits in fiscal 2009, fiscal 2008 and fiscal 2007 were as follows (in thousands):

	Years Ended		
	Mar. 31, 2009	**Mar. 31, 2008**	**Mar. 31, 2007**
Asset impairments:			
Impairment of intangible assets	$ 1,727	$ -	$ -
Write-off of property, plant, equipment and other assets	1,504	-	-
Restructuring of operations:			
Reorganization, severance and termination benefits	3,188	2,252	1,859
Defined benefit plan refund and other	(101)	(526)	-
MOD II sustaining and other selling costs	-	248	612
Total special charges and credits	$ 6,318	$ 1,974	$ 2,471

The following table details the beginning accrual balance as of March 31, 2007 and the accrued special charges for the fiscal years ended March 31, 2008 and March 31, 2009 (in thousands):

	Severance and Termination Benefits	**MOD II Closure Costs**	**Total**
Balance at March 31, 2007	1,215	-	1,215
Provisions to special charges	1,726	248	1,974
Cash payments	(2,452)	(248)	(2,700)
Balance at March 31, 2008	$ 489	$ -	$ 489
Provisions to special charges	2,160	-	2,160
Cash payments	(2,011)	-	(2,011)
Balance at March 31, 2009	$ 638	$ -	$ 638

Special charges and credits totaled $6.3 million for the fiscal year ended March 31, 2009 and $2.0 million for the fiscal year ended March 31, 2008.

Fiscal 2009 Activities

Associated with our continued focus to reduce costs and streamline our activities, we completed our plan to outsource our test production operations formerly performed in our Philippines facility to third parties, completed a worldwide workforce reduction including consolidation and elimination of certain office sites, began the outsource of certain IT functions and hardware facilities to third parties and consolidated our Headquarters functions onto one floor of our San Jose facility. During fiscal 2009, we incurred $3.1 million of reorganization, severance and termination costs including $1.1 million associated with our test outsource, $1.6 million for our worldwide workforce reduction, and $0.4 million of severance and other costs related to certain office closures and consolidations. We also recorded special charges totaling $1.5 million, including $0.8 million of lease costs, leasehold improvements and obsolete equipment associated with our San Jose headquarters consolidation and $0.7 million related to facilities, hardware and software costs for our consolidation activities and IT outsource plan.

Additionally, we incurred an impairment charge of $1.7 million relating to certain intangible assets originally created by the adoption of fresh-start accounting on our emergence from bankruptcy in 2002. Consistent with SFAS 144, ñAccounting for the Impairment or Disposal of Long-Lived Assetsò and SFAS 142, ñGoodwill and Other Intangible Assetsò, we annually review the carrying values of our goodwill and intangible assets to determine if portions of the carrying value may be impaired. Based upon our analysis, the carrying value of our goodwill of $2.2 million on March 31, 2009, was not impaired. Based upon relevant factors including the current economic conditions and the sale of a significant portion of our business in February 2009, the analysis of discounted future cash flows indicated the impairment of the carrying value of our intangible assets as of March 31, 2009.

Fiscal 2008 Activities

As part of our ongoing efforts to reduce costs and streamline activities, in November 2007, we initiated a plan to outsource our test production operations previously performed in our Philippines facility to third parties which was completed in September 2008. We also reorganized certain of our sales offices and relocated our corporate headquarters to a new facility in San Jose, California. During fiscal 2008, we incurred $1.3 million of severance, benefits related costs, transition, conversion and equipment costs related to our test outsourcing activity and other reorganization costs including the relocation to our new corporate headquarters facility, $0.9 million for severance, benefits and other costs related to our research and development site consolidation activities, $0.3 million of period expenses were incurred to sustain the dormant MOD II facility until it was sold in May 2007 for a net sales price of $3.1 million, partially offset by $0.5 million credit primarily representing a refund received from our Philippines defined benefit plan.

Stock-Based Compensation

During fiscal 2009, we recognized $1.3 million of stock-based compensation expense, as compared to $0.7 million during fiscal 2008. Our stock-based compensation expense is primarily related to the award of restricted stock and stock options to certain executives and employees. We implemented a fiscal 2009 incentive compensation plan that awarded certain employees using restricted stock instead of cash. The actual incentive awards included in our stock compensation expense related to first half fiscal 2009 performance. A credit of $0.7 million was taken in fiscal 2008 stock-based compensation expense for previously expensed stock based compensation related to certain terminated employees. Stock-based compensation expense for employee stock awards was measured on the award date and is being recognized over the vesting period of these awards. This non-cash stock-based compensation expense is included in our cost of sales, research and development and selling, general and administrative expenses.

Amortization of Intangible Assets

We have adopted the provisions of SFAS 142, ñGoodwill and Other Intangible Assetsò under which goodwill and intangible assets with indefinite lives are not amortized, but are reviewed annually or more frequently if impairment indicators arise. Separable intangible assets that are deemed to have defined lives will continue to be amortized over their useful lives. In connection with our fresh-start reporting, separable intangible assets based on independent valuations were created with deemed defined lives. These intangible assets are being amortized utilizing the pattern-of-use method over their estimated useful lives of 3 to 7 years for current technology and ten years for brand name. We evaluate existing technology and brand name whenever events and circumstances indicate that their fair value may be less than their carrying value and, if appropriate, record an impairment charge. Additionally, goodwill is tested for impairment at least annually and more often if events and circumstances indicate that its fair value may be less than its carrying value. We performed an annual impairment test for goodwill at March 31, 2009, and no impairment charge against the carrying value was indicated. Further, based upon relevant factors including the current economic conditions and the sale of a significant portion of our business in February 2009, an analysis of estimates and associated discounted future cash flows indicated the impairment of the carrying value of our intangible assets as of March 31, 2009. As a result the company incurred an impairment charge of $1.7 million in fiscal 2009.

The amortization expense for intangible assets in fiscal 2009 excluding the impairment charge, was $0.8 million as compared to $1.0 million in fiscal 2008. Amortization expense, excluding the impairment charge, was recorded on a consistent basis with the amounts determined in May 2002.

Interest Income and Interest Expense

Interest income was $0.19 million and $0.8 million for the fiscal years ended March 31, 2009 and March 31, 2008, respectively. Interest income was earned on our short term investment portfolio invested in U.S Treasury money market funds and auction rate securities at an average rate of 1.05% in fiscal 2009. In fiscal 2008, interest income was earned on our short term investment portfolio at an average rate of 4.6%.

Interest expense for fiscal 2009 was $0.04 million related to existing short term debt. There was no interest expense in fiscal 2008.

Other Income/ Expense

There was $0.4 million of other income in fiscal 2009 as compared to $0.3 million of other expense in fiscal 2008. Other income and expense includes currency translation gains and losses and other miscellaneous items.

Income Taxes

For the fiscal years ended March 31, 2009 and March 31, 2008, our income tax provision for continuing operations was $0.2 million and $0.9 million, respectively. For the fiscal year ended March 31, 2009, our income tax provision primarily provides for taxes in our profitable foreign jurisdictions. For the fiscal year ended March 31, 2008, our income tax provision reflects the amortization of deferred charges, which were fully amortized as of March 31, 2008, provisions for taxes in certain profitable foreign jurisdictions and the release of a 2003 tax reserve on which the statute of limitation expired during the quarter ended September 29, 2007. We have operated at a loss for U.S. tax purposes and we provide for income tax expense in foreign jurisdictions where the foreign subsidiaries operations generate profits that are taxable.

Deferred tax assets have been recorded net of valuation allowances. A valuation allowance is required to be recorded if in management's judgment, and based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based on available evidence, we have concluded that a valuation allowance is necessary and have reduced our net deferred tax assets to the extent of our deferred tax liabilities.

Results of Operations from Continuing Operations for the Year Ended March 31, 2008 as compared to the Year ended March 31, 2007.

	Year ended	
	Mar. 31, 2008	Mar. 31, 2007
Net sales	$ 44,644	$ 58,026
Cost of sales	25,035	29,513
Gross margin	19,609	28,513
Percent of sales	44%	49%
Operating expenses:		
Research and development	8,143	12,528
Selling, general and administrative	19,279	22,028
Special charges and credits	1,974	2,471
Amortization of intangible assets	961	1,284
Total operating expenses	30,357	38,311
Operating loss	(10,748)	(9,798)
Total other income (expense), net	487	1,093
Loss before provision for income taxes	(10,261)	(8,705)
Provision for income taxes	853	1,547
Net loss from continuing operations	$ (11,114)	$ (10,252)

Net Sales

Net sales were $44.6 million for the fiscal year ended March 31, 2008, as compared to net sales of $58.0 million for the fiscal year ended March 31, 2007.

Sales of our 8-bit products decreased in 2008, reflecting a decline in demand for certain consumer, security and telecommunications applications and lower distribution resales into broad based general purpose market including consumer and industrial market applications. Compared to year ago levels, we experienced a reduction in sales of certain security applications reflecting what we believe is the impact of a slow down in the U.S. economy as it relates to the housing market and lower overall housing starts.

Gross Margin

Cost of sales primarily represents manufacturing costs relating to wafer fabrication, package assembly, product testing operations and logistics costs. Cost of sales fluctuates, depending on materials and services prices from our vendors, manufacturing productivity, product mix, equipment utilization and depreciation. Gross margin was 44% of net sales for the fiscal year ended March 31, 2008, compared to gross margin of 49% for the fiscal year ended March 31, 2007. During the fiscal year ended March 31, 2008, our gross margin decrease was primarily the result of a lower mix of our higher margin 8-bit classic products and associated manufacturing variances from lower volumes primarily in the first half of fiscal 2008. This was partially offset by improved operating efficiencies and yields as well as reductions in wafer costs for certain of our embedded flash products.

We have focused on manufacturing cost controls, yield enhancements and price management and have continued to consolidate and streamline our manufacturing and support activities. We operate with a fully fabless model and outsource all of our wafer manufacturing needs from foundries in the United States and Taiwan. We have the flexibility to use lower geometry fab processes from our suppliers for design, allowing us to reduce the physical size of our flash products, which has allowed us to improve our gross margins on these products. We have continued to multi-source our product assembly activities with several Asian suppliers to enhance our supply source flexibility and obtain continued competitive vendor pricing.

Research and Development Expenses

Research and development expenses were $8.1 million and $12.5 million for the fiscal years ended March 31, 2008 and March 31, 2007, respectively. Research and development spending for the fiscal year ended March 31, 2008 was lower compared to the fiscal year ended March 31, 2007 due to savings from our engineering site consolidation efforts and the completion of certain new product development activities.

In March 2007, we initiated actions to consolidate our research and development activities from 4 sites to 2 sites by closing our Seattle, Washington and Shanghai, China design centers. Although we have taken these actions to consolidate our research and development activities which are designed to reduce our overall spending, our research and development efforts were, and continue to be, primarily directed towards the development of core micrologic architectures and the associated design tools.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased to $19.3 million for the fiscal year ended March 31, 2008 down from $22.0 million for the fiscal year ended March 31, 2007. Both sales and marketing and general and administrative costs decreased as we continue to streamline our global support activities thereby reducing our general support costs. Selling, general and administrative expenses for the fiscal year ended March 31, 2008 included a credit of $0.7 million for the reversal of stock compensation expense related to the cancellation of certain previously expensed stock options and restricted stock awards.

Special Charges and Credits

Special charges and credits totaled $2.0 million for the fiscal year ended March 31, 2008 and $2.5 million for the fiscal year ended March 31, 2007.

Fiscal 2008 Activities

As part of our ongoing efforts to reduce costs and streamline activities, in November 2007, we initiated a plan to outsource our test production operations previously performed in our Philippines facility to third parties which was expected to be completed by September 2008. We also reorganized certain of our sales offices and relocated our corporate headquarters to a new facility in San Jose, California. During fiscal 2008, we incurred $1.3 million of severance, benefits related costs, transition, conversion and equipment costs related to our test outsourcing activity and other reorganization costs including the relocation to our new corporate headquarters facility, $0.9 million for severance, benefits and other costs related to our research and development site consolidation activities, $0.3 million of period expenses were incurred to sustain the dormant MOD II facility until it was sold in May 2007 for a net sales price of $3.1 million, partially offset by $0.5 million credit primarily representing a refund received from our Philippines defined benefit plan.

Fiscal 2007 Activities

As part of the our ongoing efforts to reduce costs and streamline activities, in March 2007, we initiated a plan to consolidate certain research and development activities and transfer certain of these activities from our Shanghai, China and Seattle, Washington facilities to our San Jose, California and Meridian, Idaho facilities. During fiscal 2007, we incurred $1.0 million of severance and benefits costs related to this activity, which has been recorded as special charges. Other severance and benefit related costs of $0.8 million were incurred as a result of changes in our CEO position including costs associated with the departure of our former CEO, James M. Thorburn and new hire costs for our current CEO, Darin G. Billerbeck. In addition, we continued to incur period expenses of $0.6 million to sustain the dormant MOD II facility included in assets held for sale on the consolidated balance sheet as of March 31, 2007. In May 2007, the MOD II facility was sold for a net sales price of $3.1 million.

Stock-Based Compensation

During fiscal 2008, we recognized $0.7 million of stock-based compensation expense, as compared to $1.3 million during fiscal 2007. Our stock-based compensation expense is primarily related to the award of restricted stock and stock options to certain executives and employees including a credit of $0.7 million in fiscal 2008 for previously expensed stock based compensation related to terminated employees. Stock-based compensation expense for employee stock awards was measured on the award date and is being recognized over the vesting period of these awards. This non-cash stock-based compensation expense is included in our cost of sales, research and development and selling, general and administrative expenses.

Amortization of Intangible Assets

We performed the annual impairment test for goodwill at March 31, 2008, and no impairment charge was recorded as no impairment of the carrying value was indicated. The amortization expense for intangible assets in fiscal 2008 was $1.0 million as compared to $1.3 million in fiscal 2007. Amortization expense was recorded on a consistent basis with the schedules and amounts determined in May 2002.

Other Expense

There was $0.3 million of other expense in fiscal 2008 as compared $19,000 of other expense in fiscal 2007. Other expense includes income on the sale of certain private company securities, currency translation gains and losses and other miscellaneous items.

Interest Income and Interest Expense

Interest income was $0.8 million and $1.1 million for the years ended March 31, 2008 and March 31, 2007, respectively. Interest income was earned on our short term investment portfolio and auction rate securities at an average rate of 4.6% in fiscal 2008. In fiscal 2007, interest income was earned on our short term investment portfolio at an average rate of 5.0%.

There was no interest expense in fiscal 2008 and fiscal 2007.

Income Taxes

For the fiscal years ended March 31, 2008 and March 31, 2007, our income tax provision for continuing operations was $0.9 million and $1.5 million, respectively. For the fiscal year ended March 31, 2008, our income tax provision reflected the amortization of deferred charges, which have been fully amortized as of March 31, 2008, provisions for taxes in certain profitable foreign jurisdictions and the release of a 2003 tax reserve on which the statute of limitation expired during the quarter ended September 29, 2007. For the fiscal year ended March 31, 2007, our income tax provision reflected the amortization of deferred charges and provisions for taxes in certain profitable foreign jurisdictions. We have operated at a loss for U.S. tax purposes and we provide for income tax expense in foreign jurisdictions where the foreign subsidiaries operations generate profits that are taxable.

Quarterly Results (Unaudited)

The following table presents unaudited quarterly financial information for continuing operations for each of the quarters in the eight-quarter period ended March 31, 2009. The Company's fiscal year-end is March 31 effective with the reporting dates after our transition period ending on March 27, 2005. Interim results are based on fiscal quarters of thirteen weeks of duration ending on the last Saturday of each quarter.

	For the Quarters Ended							
	Mar. 31, 2009	Dec. 27, 2008	Sep. 27, 2008	Jun. 28, 2008	Mar. 31, 2008	Dec. 29, 2007	Sep. 29, 2007	Jun. 30, 2007
	(in thousands, except per share data)							
Net sales	$ 7,044	$ 9,035	$ 10,474	$ 9,604	$ 10,138	$ 10,751	$ 12,219	$ 11,536
Cost of sales	4,379	6,091	6,086	5,259	5,669	5,920	6,858	6,588
Gross margin	2,665	2,944	4,388	4,345	4,469	4,831	5,361	4,948
Gross margin as a percentage of net sales	38%	33%	42%	45%	44%	45%	44%	43%
Operating Expenses:								
Research and development	1,118	1,657	1,757	1,733	1,927	1,766	1,841	2,609
Selling, general and administrative	3,442	4,696	5,723	5,492	4,765	4,735	4,991	4,788
Special charges and credits	3,478	1,696	554	590	511	570	470	423
Amortization of intangible assets	174	209	209	209	209	250	251	251
Operating loss from continuing operations	(5,547)	(5,314)	(3,855)	(3,679)	(2,943)	(2,490)	(2,192)	(3,123)
Other income (expense):								
Interest income	4	24	49	70	154	198	233	234
Other, net	(85)	114	254	96	(133)	(122)	(18)	(59)
Loss before provision for income taxes	(5,628)	(5,176)	(3,552)	(3,513)	(2,922)	(2,414)	(1,977)	(2,948)
Provision for income taxes	(2)	67	62	54	78	374	68	333
Net loss from continuing operations	$ (5,626)	$ (5,243)	$ (3,614)	$ (3,567)	$ (3,000)	$ (2,788)	$ (2,045)	$ (3,281)
Net profit (loss) from discontinued operations	(3,831)	(425)	2,058	1,826	1,057	400	133	233
Gain from sale of discontinued operations, net of tax	21,606	-	-	-	-	-	-	-
Net income (loss)	$ 12,149	$ (5,668)	$ (1,556)	$ (1,741)	$ (1,943)	$ (2,388)	$ (1,912)	$ (3,048)
Net loss per share - basic & diluted	$ 0.71	$ (0.33)	$ (0.09)	$ (0.10)	$ (0.11)	$ (0.14)	$ (0.11)	$ (0.18)

Our net sales generally decline in the December quarter reflecting the seasonality of our consumer based product sales and the timing of distributor inventory management cycles. The quarters ended March 31, 2009 and December 27, 2008, include the impact of the current global recession.

Overall, our gross margin as a percentage of net sales generally decreased on a sequential quarterly basis from the quarter ended June 30, 2007 through the quarter ended March 31, 2009. Gross margins on our embedded flash products have generally continued to improve although they are significantly lower than gross margin on our traditional classic products. The quarters ended March 31, 2009 and December 27, 2008 reflect lower volumes of higher margin classic products and generally lower total volumes negatively impacting overhead absorption and gross margin.

Our research and development expenses have generally decreased sequentially since the quarter ended June 30, 2007 reflecting our savings related to the consolidation of our research and development sites as we continue our product development efforts to support our embedded flash-based microcontroller devices.

Our selling, general and administrative expenses were generally flat during the quarterly periods of fiscal 2009 as compared with fiscal 2008 primarily due to savings from our cost reduction programs to reduce headcount, savings from the transition and consolidation of certain administrative functions in our Philippines global support facility, offset by increases in stock compensation expenses in fiscal 2009.

Our special charges and credits for the eight quarterly periods ended March 31, 2009 are summarized below (in thousands):

	For the Quarters Ended							
	Mar. 31, 2009	Dec. 27, 2008	Sep. 27, 2008	Jun. 28, 2008	Mar. 31, 2008	Dec. 29, 2007	Sep. 29, 2007	Jun. 30, 2007
	(in thousands)							
Asset impairments:								
Impairment of intangible assets	$ 1,727	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Write-off of property, plant, equipment and other assets	1,504	-	-	-	-	-	-	-
Restructuring of operations:								
Reorganization, severance and termination benefits	348	1,696	554	590	633	537	264	818
Reimbursement from defined benefit plan and other	(101)	-	-	-	(122)	33	206	(643)
MOD II sustaining costs for post-closure maintenance	-	-	-	-	-	-	-	248
	$ 3,478	$ 1,696	$ 554	$ 590	$ 511	$ 570	$ 470	$ 423

As previously discussed, we have focused our business around our core microcontroller solutions and have moved to an outsourced model for manufacturing. The special charges over these periods have generally been aligned around this strategy. Additionally, we have continued to resize our support organizations to a lower sales base in an effort to scale down these organizations and focus the activities around these strategies.

Liquidity and Capital Resources

At March 31, 2009, we had $0.3 million of bank borrowings outstanding primarily reflecting borrowings under a short term bank arrangement utilized to finance a three-year license agreement for engineering development software.

At March 31, 2009, we had cash and cash equivalents of $32.2 million, which includes the net cash proceeds we received from the sale of our remote control and point of sale businesses on February 18, 2009. In February 2008, tightening of the U.S. liquidity markets caused the auction rate preferred securities (ARPS) process to default and as such ARPS could not be successfully sold. At that time, we had $3.9 million invested in ARPS. Our remaining investment in ARPS of $1.1 million has been classified as long term investments at full par value on our consolidated balance sheet as of March 31, 2009. At March 31, 2009, our $32.2 million of cash and cash equivalents when combined with our remaining $1.1 million of ARPS, classified as long term investments, totaled $33.3 million. Cash and cash equivalents including long term investments were $18.5 million at March 31, 2008 and $19.4 million at March 31, 2007. Cash and cash equivalents consist primarily of cash in bank accounts and money market accounts, which are readily convertible to cash and have maturities of three months or less at the time of acquisition.

Cash Flows from Operating Activities

During fiscal 2009, net cash used in continuing operating activities was $15.0 million compared to net cash used of $4.8 million in fiscal 2008. The net cash used in operating activities in fiscal 2009 primarily includes our net loss of $18 million, partially offset by non-cash charges of $6.7 million and changes in certain assets and liabilities of $3.7 million. Non-cash charges include amortization of fresh-start intangibles of $0.8 million, depreciation and other amortization of $1.8 million, stock-based compensation expense of $1.3 million and disposition of fixed assets of $1.0 million. An increase in deferred income of $2.4 million, reduction of net accounts receivable of $0.5 million and a reduction in inventories of $0.8 million, all provided cash from operating activities and were offset by an increase in prepaid expenses and other current and non-current assets of $5.1 million and decreases in accounts payable of $1.1 million, accrued compensation and employee benefits of $1.0 million and accrued and other current and non-current liabilities of $0.1 million.

During fiscal 2008, net cash used in continuing operating activities was $4.8 million as compared to net cash used of $3.2 million in fiscal 2007. The net cash used in operating activities in fiscal 2008 primarily includes our net loss of $11.1 million, partially offset by non-cash charges of $4.1 million and changes in certain assets and liabilities of $2.1 million. Non-cash charges include amortization of fresh-start intangibles of $1.0 million, depreciation and other amortization of $2.1 million, stock-based compensation expense of $0.7 million and disposition of fixed assets of $0.3 million. A reduction in prepaid expenses and other current and non-current assets of $1.9 million, reduction of net accounts receivable of $1.3 million, reduction in inventories of $0.9 million and an increase in accounts payable of $0.7 million all provided cash from operating activities and were offset by decreases in deferred income on shipments to distributors of $1.4 million, accrued and other current and non-current liabilities of $0.8 million and accrued compensation and employee benefits of $0.4 million.

During fiscal 2007, net cash used in continuing operating activities was $3.2 million as compared to net cash used of $6.4 million during fiscal 2006. The net cash used in operating activities in fiscal 2007 primarily includes our net loss of $10.3 million and changes in certain assets and liabilities of $2.4 million, partially offset by non-cash charges of $9.4 million. Non-cash charges include an adjustment to goodwill of $4.5 million, amortization of fresh-start intangibles of $1.3 million, depreciation and other amortization of $2.3 million and stock-based compensation expenses of $1.3 million. A reduction in accounts receivable of $2.4 million, a reduction in prepaid and other current and non-current assets of $2.2 million, an increase in deferred income of $1.0 million, and an increase in accrued compensation and employee benefits of $0.2 million all provided cash from operating activities and were offset by an increase in net inventories of $1.8 million and decreases in accrued and other current and non-current liabilities of $6.2 million and accounts payable of $0.2 million.

Cash Flows from Investing Activities

During fiscal 2009, net cash provided by continuing investing activities of $24.9 million includes proceeds from the sale of discontinued operations of $24.7 million, redemptions of long term investments of $0.8 million offset by capital expenditures of $0.6 million

During fiscal 2008, net cash used in continuing investing activities includes our investment in auction rate securities classified as long term investments of $1.9 million, capital expenditures of $1.3 million, offset by net proceeds from assets held for sale of $3.2 million.

During fiscal 2007, net cash used in investing activities was $6.4 million, an increase of $6.1 million as compared to $0.3 million in fiscal 2006. Cash used in investing activities in fiscal 2007, primarily reflects the $2.8 million payment to ZiLOG MOD III, Inc. Series A Preferred shareholders for the remaining net proceeds upon liquidation of the special purpose entity, capital expenditures of $2.1 million and costs of $1.4 million incurred for the decommissioning of primarily land and buildings of our MOD II facility, which is classified as assets held for sale on the consolidated balance sheets as of March 31, 2007. The capital expenditures primarily reflect the addition of test equipment to support increased demand for our embedded flash products and system and software upgrades to support Oracle systems and applications.

Cash Flows from Financing Activities

Net cash used in continuing financing activities was $0.3 million in fiscal 2009 as compared to cash provided of $0.9 million in fiscal 2008 and $0.5 million in fiscal 2007.

Net cash used in financing activities of $0.3 million in 2009 primarily includes net payments against short term debt of $1.0 million offset by $0.7 million of net short term borrowings.

Net cash provided by financing activities of $0.9 million in 2008 includes the receipt of cash under our short term financing arrangement of $0.7 million, proceeds from the issuance of common stock under employee stock plans of $0.5 million, partially offset by the repurchase of restricted shares from our Chief Financial Officer as consideration for payment on an outstanding loan plus interest payable to us of $0.3 million.

Net cash provided by financing activities of $0.5 million in 2007 includes proceeds from the issuance of common stock under employee stock plans.

Off-Balance Sheet Arrangements

As of March 31, 2009, we were not involved in any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Non-GAAP EBITDA Measure

The EBITDA figures presented below reflect a non-GAAP measure of our liquidity. EBITDA reflects our net income adjusted for certain non-cash items, interest and income taxes.

Our reconciliation of net loss to EBITDA and our reconciliation of EBITDA to net cash provided by (used in) operating activities (the most directly comparable measure of liquidity under generally accepted accounting principles) for each unaudited period presented, is as follows (in thousands):

	For the Quarters Ended							
	Mar. 31, 2009	Dec. 27, 2008	Sep. 27, 2008	Jun. 28, 2008	Mar. 31, 2008	Dec. 29, 2007	Sep. 29, 2007	Jun. 30, 2007
				(in thousands)				
Reconciliation of net loss to EBITDA:								
Net loss from continuing operations	$ (5,626)	$ (5,243)	$ (3,614)	$ (3,567)	$ (3,000)	$ (2,788)	$ (2,045)	$ (3,281)
Depreciation and amortization	452	466	478	436	512	524	517	539
Interest income	(4)	(24)	(49)	(70)	(154)	(198)	(233)	(234)
Provision for income taxes	(2)	67	62	54	78	374	68	333
EBITDA from continuing operations	$ (5,180)	$ (4,734)	$ (3,123)	$ (3,147)	$ (2,564)	$ (2,088)	$ (1,693)	$ (2,643)
Reconciliation of EBITDA to net cash provided by (used in) operating activities:								
EBITDA	$ (5,180)	$ (4,734)	$ (3,123)	$ (3,147)	$ (2,564)	$ (2,088)	$ (1,693)	$ (2,643)
Interest income	4	24	49	70	154	198	233	234
Provision for income taxes	2	(67)	(62)	(54)	(78)	(374)	(68)	(333)
Stock-based compensation	198	467	288	371	(134)	103	368	384
Loss on disposition of operating assets	986	11	-	35	77	-	71	170
Changes in operating assets and liabilities	(4,119)	(571)	(577)	4,124	(571)	(306)	2,115	1,906
Net cash provided by (used in) continuing operating activities	$ (8,109)	$ (4,870)	$ (3,425)	$ 1,399	$ (3,116)	$ (2,467)	$ 1,026	$ (282)

As of March 31, 2009, we had no outstanding commitments for capital expenditures. We currently estimate fiscal 2010 capital expenditures will range from 1% - 2% of net sales, and may include purchases of leasehold improvements, internal use software and other items. Decisions related to how much cash is used for investing are influenced by the expected amount of cash to be provided by operations. We currently anticipate that available cash and cash equivalents will be adequate to satisfy our cash requirements for at least the next year.

Contractual Obligations

We lease certain of our facilities and equipment under non-cancelable operating leases, which expire in fiscal 2010 through fiscal 2013. The facility lease agreements generally provide for base rental rates, which increase at various times during the terms of the leases and also provide for renewal options at fair market rental value. We are also responsible for common area maintenance charges on certain office leases, which are not included in the table below. These charges are generally less than 10% of base rents. Total operating lease expenses, including month-to-month rentals, were approximately $1.8 million, $1.9 million and $2.1 million, for the fiscal years ended March 31, 2009, March 31, 2008 and March 31, 2007 respectively.

We generally make purchases under cancelable purchase orders and do not enter into long-term supply agreements. Certain of our wafer foundry, assembly, materials suppliers, software vendors and support tool manufacturers require non-cancelable purchase orders since they often provide products and services tailored to our specifications. Summarized in the table below are minimum future commitments under operating leases and non-cancelable purchase obligations as of March 31, 2009 (in thousands):

	Total	Within 1 year	1-3 years	3-5 years	> 5 years
Operating lease obligations	$ 3,911	$ 1,225	$ 2,365	$ 321	$ -
Purchase obligations	4,375	3,348	1,027		
Total	$ 8,286	$ 4,573	$ 3,392	$ 321	$ -

From time to time, we have agreed to indemnify and hold harmless certain customers for potential allegations of infringement of intellectual property rights and patents arising from the use of our products. During the ordinary course of business, in certain limited circumstances, we have agreed to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally parties with which we have commercial relations, in connection with certain intellectual property infringement claims by any third party with respect to its products and services. We have indemnification arrangements that limit our net contingent obligation to pay for defense costs, if any, up to a maximum of $2 million. To date, there have not been any costs incurred in connection with such indemnification arrangements; therefore, there is no accrual of such amounts at March 31, 2009.

On February 18, 2009, we sold our universal remote control and secured transaction processor businesses to Maxim and UEI for approximately $31 million in cash including $3.1 million that is held in escrow to satisfy our indemnification obligations for any losses incurred by Maxim or UEI that may result from inaccuracies in our representations and warranties in the acquisition agreement or our failure to fulfill certain obligations in the acquisition agreement. In certain limited circumstances our indemnification obligations are not limited to the escrow amount. The escrow is scheduled to be released 50% after 6 months and 100% after 12 months.

We disclose indemnification liabilities according to FASB Staff Position FIN45-1, "Accounting for Intellectual Property Infringement Indemnifications under SFAS Interpretation No. 45." Under SFAS No. 5, "Loss Contingencies," a claim would be accrued when a loss is probable and the amount can be reasonably estimated. At March 31, 2009, no such amounts are accrued.

Effects of Inflation and Changing Prices

We believe that inflation and/or deflation had a minimal impact on our overall operations during the periods presented in this report.

Seasonality

Sales typically increase in the June quarter and peak in the September quarter driven by increased holiday demand from our customers in the home entertainment and consumer products markets, while sales are generally lower in the March and December quarters as compared to the June and September quarters, although our trends have fluctuated considerably in the most recent periods. Our sales have been impacted by non-seasonal trends including sales reductions by certain direct customers and declines in our classic business. Additionally, general world-wide economic, political and regional instabilities have impacted and may impact our results of operations in any given period.

Recent Accounting Pronouncements

See ñNote 1- Description of Business and Summary of Significant Accounting Policiesò to our consolidated financial statements, included in Item 8. ñFinancial Statements and Supplementary Data,ò for information about recent accounting pronouncements, including the expected dates of adoption and estimated effects, if any, on our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our short-term investment portfolio. We do not use derivative financial investments in our investment portfolio. Our primary investment objectives are to preserve capital and maintain liquidity. These objectives are met by investing in high-quality credit issuances and limiting the amount of credit exposure to any one company. Our policy is to mitigate default risk by investing in only the highest quality securities and monitoring the credit ratings of such investments. As of March 31, 2009, our cash and cash equivalents of $32.2 million were invested in bank time deposits and U.S Treasury money market funds. Cash and cash equivalents combined with long term investments totaled $33.3 million at March 31, 2009. We have no significant cash flow exposure due to rate changes for our cash equivalents as these instruments have near term maturities.

The table below presents principal amounts and related interest rates for our cash equivalents and long term investments as of March 31, 2009 (dollars in thousands):

As of March 31, 2009	Carrying Value	Fair Value
Cash Equivalents:		
Fixed rate	$ 32,230	$ 32,230
Long Term Investments:		
Fixed rate - auction rate securities	1,100	1,100
Average interest rate	1.05%	

At March 31, 2009, we had cash and cash equivalents of $32.2 million. In February 2008, tightening of the U.S. liquidity markets caused the auction rate process to default and ARPS could not be successfully sold. At that time, we had $3.9 million invested in ARPS. Our remaining investment in ARPS of $1.1 million has been classified as long term investments at full par value on our consolidated balance sheet as of March 31, 2009. At March 31, 2009, our $32.2 million of cash and cash equivalents when combined with our remaining $1.1 million of ARPS, classified as long term investments, totaled $33.3 million. Cash and cash equivalents including long term investments were $18.5 million at March 31, 2008 and $19.4 million at March 31, 2007. Cash and cash equivalents consist primarily of cash in bank accounts and money market accounts, which are readily convertible to cash and have maturities of three months or less at the time of acquisition.

Foreign Currency Exchange Risk

We transact business in various foreign countries, but the vast majority of our consolidated net sales and purchases are denominated in U.S. dollars. Currently, we do not employ a foreign currency hedging program to mitigate our foreign currency exchange risk related to foreign currency transactions and we believe the risks to date have not been significant. We maintain local currency bank accounts in our international offices to facilitate payment of local operating costs.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements and supplementary data are provided herein:

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of ZiLOG, Inc.

We have audited the accompanying consolidated balance sheets of ZiLOG, Inc. and subsidiaries (the ñCompanyò) as of March 31, 2009 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended March 31, 2009. Our audits also included the financial statement schedule for each of the years in the three year period ended March 31, 2009 listed in Item 15a (2). These consolidated financial statements and related financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Companyôs internal controls over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 ZiLOG, Inc. and subsidiaries as of March 31, 2009 and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2009, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule for the three years ended March 31, 2009, when considered in relation to the consolidated financial statements taken as a whole, presents fairly, in all material aspects, the information set forth therein.

/s/ Armanino McKenna LLP

San Ramon, California
June 27, 2009

ZiLOG, INC.
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share amounts)

	Mar. 31, 2009	Mar. 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 32,230	$ 16,625
Accounts receivable, less allowance for doubtful accounts of $129 at March 31, 2009 and $139 at March 31, 2008	1,698	2,203
Inventories	4,022	6,908
Deferred tax assets	10	263
Prepaid expenses and other current assets	5,995	1,266
Current assets associated with discontinued operations	960	6,533
Total current assets	44,915	33,798
Long term investments	1,100	1,925
Property, plant and equipment, net	2,347	4,594
Goodwill	2,211	2,211
Intangible assets, net	-	2,528
Other assets	1,079	581
Non current assets associated with discontinued operations	-	2,203
Total assets	$ 51,652	$ 47,840
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short term debt	$ 346	$ 720
Accounts payable	4,368	5,508
Income taxes payable	195	513
Accrued compensation and employee benefits	1,349	2,312
Other accrued liabilities	2,550	2,086
Deferred income, net of costs	8,024	5,571
Current liabilities associated with discontinued operations	1,256	2,733
Total current liabilities	18,088	19,443
Deferred tax liabilities	10	263
Other non-current liabilities	1,928	1,255
Total liabilities	20,026	20,961
Stockholders' equity:		
Common stock, $0.01 par value; 60.0 million shares authorized: 17.1 million and 16.9 million shares issued and outstanding at March 31, 2009 and March 31, 2008, respectively	186	185
Additional paid-in capital	127,436	125,838
Treasury stock	(7,563)	(7,456)
Accumulated comprehensive income	173	102
Accumulated deficit	(88,606)	(91,790)
Total stockholders' equity	31,626	26,879
Total liabilities and stockholders' equity	$ 51,652	$ 47,840

See accompanying notes to the consolidated financial statements.

ZiLOG, INC.

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

	Twelve Months Ended		
	Mar. 31, 2009	**Mar. 31, 2008**	**Mar. 31, 2007**
Net sales	$ 36,157	$ 44,644	$ 58,026
Cost of sales	21,815	25,035	29,513
Gross margin	14,342	19,609	28,513
Gross margin percent of sales	39.7%	43.9%	49.1%
Operating expenses:			
Research and development	6,265	8,143	12,528
Selling, general and administrative	19,353	19,279	22,028
Special charges and credits	6,318	1,974	2,471
Amortization of intangible assets	801	961	1,284
Total operating expenses	32,737	30,357	38,311
Operating loss from continuing operations	(18,395)	(10,748)	(9,798)
Other income (expense):			
Interest income	188	819	1,112
Interest expense	(40)	-	-
Other, net	378	(332)	(19)
Total other income (expense), net	526	487	1,093
Loss from continuing operations before provision for income taxes	(17,869)	(10,261)	(8,705)
Provision for income taxes	181	853	1,547
Net loss from continuing operations	$ (18,050)	$ (11,114)	$ (10,252)
Net income (loss) from discontinued operations	(372)	1,823	1,214
Gain from sale of discontinued operations, net of tax	21,606	-	-
Net income (loss)	$ 3,184	$ (9,291)	$ (9,038)
Basic and diluted net loss per share - continuing operations	$ (1.05)	$ (0.66)	$ (0.61)
Basic and diluted net income (loss) per share - discontinued operations	(0.02)	0.11	0.07
Basic and diluted gain on sale of discontinued operations per share	1.26	-	-
Basic and diluted net income (loss) per share	$ 0.19	$ (0.55)	$ (0.54)
Weighted-average shares, basic	17,031	16,893	16,665
Weighted-average shares, diluted	17,114	16,893	16,665

See accompanying notes to the consolidated financial statements.

ZiLOG, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Twelve Months Ended		
	Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007
Cash Flows from Operating Activities:			
Net loss from continuing operations	$ (18,050)	$ (11,114)	$ (10,252)
Adjustments to reconcile net loss from continuing operations to net cash provided by (used in) continuing operating activities:			
Amortization of fresh-start intangible assets	801	961	1,284
Depreciation and other amortization	1,832	2,092	2,259
Goodwill adjustment	-	-	4,529
Disposition of operating assets	1,032	318	8
Impairment of intangible assets	1,727	-	-
Stock-based compensation	1,324	721	1,347
Changes in operating assets and liabilities:			
Accounts receivable, net	505	1,293	2,436
Inventories	759	901	(1,811)
Prepaid expenses and other current and non-current assets	(5,147)	1,926	2,216
Accounts payable	(1,140)	682	(177)
Accrued compensation and employee benefits	(963)	(418)	244
Deferred income, net of costs	2,453	(1,392)	967
Accrued and other current and non-current liabilities	(138)	(809)	(6,251)
Net cash used in continuing operating activities	(15,005)	(4,839)	(3,201)
Net cash provided by discontinued operating activities	6,078	3,220	1,522
Cash Flows from Investing Activities:			
Assets held for sale - vacant property	-	-	(1,437)
Payable to ZiLOG Mod III, Inc. Series A Preferred shareholders	-	-	(2,848)
Proceeds from sale of assets	-	3,237	-
Proceeds from sale of discontinued businesses, net of transaction costs	24,695	-	-
Redemption of long term investments	825	-	-
Investment in long term securities	-	(1,925)	-
Capital expenditures	(626)	(1,299)	(2,097)
Net cash provided by (used in) continuing investing activities	24,894	13	(6,382)
Net cash used in discontinued investing activities	-	(2,076)	-
Cash Flows From Financing Activities:			
Proceeds from short term debt	660	720	-
Payments on short term debt	(1,034)	-	-
Repurchase of treasury shares	(54)	(282)	-
Proceeds from issuance of common stock under employee stock purchase and stock option plans	116	470	497
Net cash provided by (used in) continuing financing activities	(312)	908	497
Net cash provided by (used in) discontinued financing activities	(50)	9	-
Net increase (decrease) in cash and cash equivalents	15,605	(2,765)	(7,564)
Cash and cash equivalents at beginning of period	16,625	19,390	26,954
Cash and cash equivalents at end of period	$ 32,230	$ 16,625	$ 19,390
Supplemental Disclosure of Cash Flow Information:			
Income taxes paid during the period	$ 186	$ 345	$ 340
Supplemental Disclosure of Non-Cash Investing and Financing Activities:			
Value of shares repurchased through employee loan repayments	$ -	$ 282	$ -

See accompanying notes to the consolidated financial statements.

ZiLOG, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock Shares	Common Stock Amount	Deferred Stock Compensation	Additional Paid-in Capital	Treasury Stock	Accumulated Comprehensive Income	Accumulated Deficit	Total Stockholders Equity
Balance at March 31, 2006	16,585	$ 181	$ (566)	$ 123,198	$ (7,174)	$ -	$ (73,782)	$ 41,857
Issuance of common stock under stock option plans	121	1	-	247	-	-	-	248
Issuance of restricted shares	91	-	-	-	-	-	-	-
Issuance of common stock under employee stock								-
purchase plan	93	1	-	247	-	-	-	248
Restricted shares cancelled	(76)	-	-	-	-	-	-	-
Stock-based compensation expense	26	-	-	1,432	-	-	-	1,432
Adoption of FAS123R	-	-	566	(566)	-	-	-	-
Net loss and comprehensive loss	-	-	-	-	-	-	(9,038)	(9,038)
Balance at March 31, 2007	16,840	183	-	124,558	(7,174)	-	(82,820)	34,747
Adoption of FIN48	-	-	-	-	-	-	321	321
Issuance of common stock under stock option plans	101	2	-	311	-	-	-	313
Issuance of common stock under employee stock								-
purchase plan	53	-	-	166	-	-	-	166
Restricted shares cancelled	(25)	-	-	-	-	-	-	-
Repurchase of treasury shares	(73)				(282)	-		(282)
Stock-based compensation expense	27	-	-	803	-	-	-	803
Comprehensive income:								
Other comprehensive income - defined benefit plan	-	-	-	-	-	102	-	102
Net loss							(9,291)	(9,291)
Total comprehensive loss	-	-	-	-	-		-	(9,189)
Balance at March 31, 2008	16,923	185	-	125,838	(7,456)	102	(91,790)	26,879
Issuance of common stock under stock option plans	5	-	-	15	-	-	-	15
Issuance of common stock under employee stock								-
purchase plan	43	1	-	103	-	-	-	104
Restricted shares cancelled	(79)	-	-	-	-	-	-	-
Restricted shares granted - employee stock incentive plan	235	-	-	549	-	-	-	549
Repurchase of treasury shares	(47)	-	-	-	(107)	-	-	(107)
Stock-based compensation expense	31	-	-	931	-	-	-	931
Comprehensive income:								
Other comprehensive income - defined benefit plan	-	-	-	-	-	71		71
Net income							3,184	3,184
Total comprehensive income	-	-	-	-	-		-	3,255
Balance at March 31, 2009	17,111	$ 186	$ -	$ 127,436	$ (7,563)	$ 173	$ (88,606)	$ 31,626

See accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

ZiLOG, Inc. (ñZiLOGò or the ñCompanyò) is a worldwide supplier of semiconductor products. The Company designs, develops and markets various families of products in support of the micrologic semiconductor market segment. Using proprietary technology, ZiLOG provides semiconductor devices that its customers design into their end products. These devices typically combine a microprocessor memory, and input and output functions on a single device. ZiLOGôs micrologic devices enable a broad range of consumer and industrial electronics manufacturers to control the functions and performance of their products. ZiLOGôs other devices have a wide variety of uses including the processing and transmission of information for data communications, telecommunications and consumer electronics companies.

Basis of Presentation

The consolidated financial statements include the accounts of ZiLOG, Inc. and its subsidiaries. All significant transactions and accounts between the Company and these subsidiaries have been eliminated in consolidation. Certain reclassifications have been made to prior-period balances to present the consolidated financial statements on a consistent basis with the current year presentation. Any reference to year pertains to the fiscal year unless otherwise indicated.

Revenue Recognition

Revenue from product sales to direct customers is recognized when evidence of an agreement exists, customers or their agents receive the product and title transfers, and collection of amounts due is reasonably assured. Appropriate allowances for returns, discounts and warranty costs are recorded concurrent with revenue recognition.

The Company also licenses technology for certain of its products and receives payment in the form of royalties. Typically, licensees provide shipment and royalty information when the payment is remitted, usually 60 days subsequent to the end of the quarter in which shipments are made. The Company records royalty revenues as net sales when the cash is received from the licensees.

Revenue on shipments to distributors who have rights of return and/or price protection on unsold merchandise held by them is deferred until products are resold by the distributors to end users. Although revenue is deferred until it is resold, title of products sold to distributors transfers upon shipment. Accordingly, shipments to distributors are reflected in the consolidated balance sheets as accounts receivable and a reduction of inventories at the time of shipment. Deferred revenue and the corresponding cost of sales on shipments to distributors are reflected in the consolidated balance sheets on a net basis as ñDeferred income, net of costs.ò Refer to Note 7 of notes to consolidated financial statements for details regarding deferred revenues.

Cash and Cash Equivalents

Cash and cash equivalents consist of bank deposits and money market funds, which are readily convertible to cash and have maturities of three months or less at the time of acquisition. As of March 31, 2009, the Company had $1.1 million invested in auction rate preferred securities (ñARPSò) which is classified as long term investments at full par value on the consolidated balance sheet as of March 31, 2009. Refer to Note 13 of notes to consolidated financial statements for details regarding the classification.

Accounts Receivable and Allowances

The Company maintains an allowance for losses it may incur as a result of its customersô inability to make required payments. Any increase in the allowance results in a corresponding increase in selling, general and administrative expenses. In establishing this allowance and evaluating the adequacy of the allowance for doubtful accounts, the Company considers the aging of accounts receivable, historical bad debts, customer concentrations, customer credit-worthiness and, to a lesser extent, current economic trends and changes in customer payment terms.

The Companyôs sales to direct customers consist of gross product sales reduced by expected future sales returns and price allowances. To estimate sales returns and price allowances, the Company analyzes historical returns and allowance activity to establish a baseline reserve level. The Company then evaluates whether there are any underlying product quality or other customer specific issues that require additional specific reserves above the baseline level.

The Companyôs sales to distributors that have rights of return and/or price protection allowances on unsold merchandise held by them are deferred until such products are resold by the distributors to end users. At the time that the Company recognizes distributor re-sales as revenue, it records a reserve for estimated price adjustments that the distributors may reclaim from the Company on the merchandise they resold to end users. These reserves are recorded as a reduction to sales and a reduction to accounts receivable. To estimate this distributor price adjustment reserve, the Company analyzes its historical price adjustment payments, price adjustments taken by distributors but not processed by the Company and pending price adjustments that have been authorized by the Company but have not yet been claimed by its distributors.

Fair Value of Financial Instruments, Concentration of Credit Risk

Cash and cash equivalents consist primarily of cash in bank accounts and money market accounts. The carrying value of the Companyôs financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and current liabilities, approximates fair value due to their relatively short maturities. Financial instruments that subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company maintains its cash and cash equivalents and investments with high quality financial institutions.

As of March 31, 2009 the Company held $1.1 million in auction rate preferred securities (ñARPSò). Since February 2008, due to various factors including the tightening of liquidity in the financial market, regularly held auctions for these ARPS have been unsuccessful. The Company has received total redemptions totaling $2.8 million or 72% of the original value in February 2008. The collateralized asset value ranges exceed the value of ARPS held by the Company by 200 to 300 percent. The Company believes the ARPS values are not impaired and as such, no impairment has been recognized against the investment. If the issuers are unable to successfully close future auctions and their credit rating continues to deteriorate, the Company may be required to record an impairment charge against the value of its ARPS holdings. (See Note 13, Fair Value Measurements)

The Companyôs customer base is located primarily in North America, Europe and Asia. The Company performs ongoing credit evaluations of its customersô financial condition and limits its exposure to financial losses by limiting the amount of credit extended whenever deemed necessary and generally does not require collateral. As of March 31, 2009 and March 31, 2008, respectively, there were two customers with net accounts receivable comprising more than 10% of total net accounts receivable.

Inventories

Inventories are stated at the lower of cost (which approximates actual cost on a first-in, first-out basis) or market. Provisions, when required, are made to reduce inventory values from cost to their estimated net realizable values. It is possible that estimates of net realizable value can change in the short-term. Inventory reserves for excess or obsolete inventory are released only upon sale, scrap or other disposition of reserved inventory. Inventories, net of provisions, consist of the following (in thousands):

	Mar. 31, 2009	Mar. 31, 2008
Raw materials	$ 234	$ 367
Work-in-process	2,762	4,858
Finished goods	1,026	1,683
Total inventory	$ 4,022	$ 6,908

Property, Plant and Equipment and Intangibles

Depreciation is computed using the straight-line method over the estimated economic lives of the assets, which are generally between three and seven years for machinery and equipment.

Amortization of leasehold improvements is computed using the shorter of the remaining terms of the leases or the estimated economic lives of the improvements. Depreciation expense relating to continuing operations for property, plant and equipment was $1.8 million, $2.1 million and $2.3 million for fiscal years ended March 31, 2009, 2008 and 2007, respectively. The Company did not have any assets leased under capital leases during the periods indicated.

Property, plant and equipment consist of the following (in thousands):

	Mar. 31, 2009	Mar. 31, 2008
Property, plant and equipment at cost:		
Land, buildings and leasehold improvements	$ 1,914	$ 2,632
Machinery and equipment	20,480	37,632
	22,394	40,264
Less accumulated depreciation and amortization	(20,047)	(35,669)
Net property, plant and equipment	$ 2,347	$ 4,594

We apply the provisions of SFAS 144, ñAccounting for the Impairment or Disposal of Long-Lived Assetsò and SFAS 142, ñGoodwill and Other Intangible Assets.ò We evaluate long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include the following:

Å significant changes in the manner of our use of the acquired assets;

Å significant changes in the strategy for our overall business; and

Å significant negative industry or economic trends.

When we determine that the carrying value of long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, and the undiscounted cash flows estimated to be generated by those assets are less than the assetôs carrying value, the carrying value of the assets are reduced to their estimated fair value. The estimated fair value is usually determined based on an estimate of discounted future cash flows. Asset impairments are recorded as a reduction in the asset value in our consolidated balance sheets and as special charges in our consolidated statements of operations.

The intangible assets created by the adoption of fresh-start accounting on our emergence from bankruptcy in 2002 consist of existing technology and brand name, as well as excess enterprise value, or goodwill. The existing technology and brand name are being amortized based on a pattern-of-use method in proportion to the forecast discounted cash flows from such assets. The goodwill is not subject to amortization.

We evaluate existing technology and brand name whenever events and circumstances indicate that their fair value may be less than their carrying value. Additionally, goodwill is tested for impairment at least annually and more often if events and circumstances indicate that its fair value may be less than its carrying value. We performed the annual impairment test for goodwill in the fourth quarter of 2009, and we perform this test in the fourth quarter of each fiscal year unless the existence of triggering events indicates that an earlier review should be performed.

Adjustments to record impairment of long-lived assets or intangible assets could have a material adverse impact on our financial condition and results of operations in the period or periods in which such impairment is identified.

Other Accrued Liabilities

The following table further details ñother accrued liabilitiesò (in thousands):

	Mar. 31, 2009	Mar. 31, 2008
Accrued audit fees	$ 144	$ 30
Accrued legal costs	876	876
Accrued special charges	638	489
Accrued micellaneous other	892	691
Other accrued liabilities	$ 2,550	$ 2,086

Accrued miscellaneous other includes accrued liabilities relating to facility rent, other taxes and tax preparation fees, marketing costs and expenses, Board of Directors related expenses as well as other various and sundry items.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of net sales and expenses during the reporting periods. Significant estimates made in preparing these financial statements include, but are not limited to, excess and obsolete inventories, tax valuation allowance, allowance for doubtful accounts and sales returns and allowances. Actual results could differ from those estimates.

Advertising Expenses

The Company accounts for advertising costs as an expense in the period in which they are incurred. Advertising expenses were $0.3 million, $0.5 million and $0.5 million for the fiscal years ended March 31, 2009, 2008 and 2007, respectively. Advertising costs are included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

Shipping Costs

Shipping costs are included in cost of sales.

Research and Development Expenses

The Companyõs policy is to record all research and development expenditures with no future alternative use, as period expenses, when incurred. Research and development expenditures incurred and expensed were $6.3 million for the fiscal year ended March 31, 2009, $8.1 million for the fiscal year ended March 31, 2008 and $12.5 million for the fiscal year ended March 31, 2007.

Stock Awards

Effective April 1, 2006, the Company adopted SFAS 123R, which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options, restricted stock awards and employee stock purchases related to the 2004 Employee Stock Purchase Plan based on estimated fair values. SFAS 123R supersedes the Companyõs previous accounting under APB 25 and SFAS 123 for periods beginning in fiscal 2007. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (ñSAB 107ò) relating to SFAS 123R. The Company has applied the provisions of SAB 107 in its adoption of SFAS 123R. The Company elected to adopt SFAS 123R using the modified prospective transition method utilizing the single option attribution approach, which requires the application of the accounting standards as of April 1, 2006, the first day of the Companyõs fiscal year 2007. In accordance with the modified prospective transition method, the Companyõs prior periods have not been restated to reflect, and do not include, the impact of SFAS 123R. The Companyõs consolidated financial statements as of and for the fiscal years ended March 31, 2009, 2008 and 2007 reflect the impact of SFAS 123R. (See Note 6 ï Stock Compensation and Stockholders Equity)

Recent Accounting Pronouncements

In April 2009, the FASB issued FSP FAS No. 157-4, ñDetermining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderlyò (FSP FAS 157-4). FSP FAS 157-4 amends SFAS 157 and provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for the asset or liability have significantly decreased and also includes guidance on identifying circumstances that indicate a transaction is not orderly for fair value measurements. This FSP will be required to be applied prospectively to all fair value measurements where appropriate and will be effective for interim and annual periods ending after June 15, 2009. Xilinx will be required to implement the standard during the first quarter of fiscal 2010, which began on March 29, 2009. The Company is currently evaluating this new FSP but does not believe that its adoption will have a significant impact on its consolidated financial condition or results of operations.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, ñInterim Disclosures About Fair Value of Financial Instrumentsò (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 amends SFAS No. 107, ñDisclosures about Fair Value of Financial Instruments,ò (SFAS 107) to require disclosures about fair value of financial instruments not measured on the balance sheet at fair value in interim financial statements as well as in annual financial statements. Prior to this FSP, fair values for these assets and liabilities were only disclosed annually. This FSP applies to all financial instruments within the scope of SFAS 107 and requires all entities to disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments. This FSP will be effective for interim periods ending after June 15, 2009. FSP FAS 107-1 and APB 28-1 will result in increased disclosures in the Companyôs interim periods beginning in the first quarter of fiscal 2010 our fiscal quarter ending June 28, 2009.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS No. 141R). SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the business being acquired and the goodwill acquired. SFAS No. 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. In April 2009, the FASB issued FSP FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies (FSP FAS 141R-1). FSP FAS 141R-1 amends and clarifies SFAS No. 141R to address application issues on initial recognition and measurement, subsequent measurement and accounting and disclosure of assets and liabilities arising from contingencies in a business combination. SFAS No. 141R and FSP FAS 141R-1 are effective for fiscal years beginning after December 15, 2008, and will be adopted by the Company in the first quarter of fiscal 2010, our fiscal quarter ending June 28, 2009. The Company is currently evaluating this new FSP but does not believe that its adoption will have a significant impact on its consolidated financial condition or results of operations.

NOTE 2. GOODWILL AND INTANGIBLE ASSETS

The Company has adopted the provisions of SFAS 142, under which goodwill and intangible assets with indefinite lives are not amortized, but are reviewed annually or more frequently if impairment indicators arise. In connection with its reorganization in 2002, the Company recorded a valuation allowance against deferred tax assets and recorded deferred income tax liabilities and income tax contingencies in accordance with Statement of Financial Accounting Standards No. 5, ñAccounting for Contingencies.ò Since 2002, the Company has reassessed and updated its deferred income tax liabilities and income tax contingencies requirements and reduced the associated liabilities as an adjustment to goodwill. In addition, reductions in the valuation allowance that were established as liabilities on the consolidated balance sheets under fresh-start reporting in 2002 have been recorded as a reduction in the carrying value of goodwill. No such reassessments or adjustments were recorded for the fiscal years ended March 31, 2009 and 2008.

Intangible assets established in connection with the Companyôs fresh-start reporting, separable intangible assets that are deemed to have defined lives (primarily related to existing technology and brand name), are being amortized utilizing the pattern-of-use method over estimated useful lives ranging from 3 to 10 years. During the fiscal year ended March 31, 2009 the Company recorded an impairment charge of $1.7 million. Changes in the carrying value of separable intangible assets for the periods indicated are as follows (in thousands):

	Existing Technology	Brand Name	Total Intangibles
Balance at March 31, 2007	$ 172	$ 3,317	$ 3,489
Amortization during fiscal 2008	(124)	(837)	(961)
Balance at March 31, 2008	$ 48	$ 2,480	$ 2,528
Amortization during fiscal 2009	(48)	(753)	(801)
Impairment recorded during fiscal 2009	-	(1,727)	(1,727)
Balance at March 31, 2009	$ -	$ -	$ -

Consistent with SFAS 144, ñAccounting for the Impairment or Disposal of Long-Lived Assetsò and SFAS 142, ñGoodwill and Other Intangible Assetsò, the Company annually reviews the carrying values of its Goodwill and Intangible assets to determine if portions of the carrying value may be impaired. Based upon the Companyôs analysis, the carrying value of its Goodwill of $2.2 million on March 31, 2009, was not impaired as the market value as determined by market capitalization exceeded book value. Based upon relevant factors including the current economic conditions and the sale of a significant portion of the Companyôs business in February 2009, estimates and the analysis of associated discounted future cash flows indicated the impairment of the carrying value of the intangible assets as of March 31, 2009.

NOTE 3. DISCONTINUED OPERATIONS

During fiscal 2009 the company experienced a significant reduction in sales reflecting lower demand for product and the global worldwide recession. Following a review of its strategy in light of an anticipated continuation of contraction in the market place, on February 18, 2009, the Company sold its universal remote control and secured transaction processor businesses to Maxim and UEI for approximately $31 million in cash including $3.1 million that is held in escrow to satisfy any losses incurred by Maxim or UEI that may result from inaccuracies in the Companyôs representations and warranties in the acquisition agreement or the Companyôs failure to fulfill certain obligations in the acquisition agreement. The escrow is scheduled to be released 50% after 6 months and 100% after 12 months. A gain on the sale of $21.6 million was recorded. In accordance with Statement of Financial Accounting Standards No. 144, ñAccounting for the Impairment or Disposal of Long Lived Assetsò, the assets and liabilities, results of operations and cash flows related to the sale businesses, have been classified as discontinued operations in the consolidated financial statements for all periods presented through the date of the sale. Cash flows associated with the sale businesses have been segregated in the consolidated statements of cash flows as separate line items within operating, investing and financing activities. As a result, our historical financial statements have been restated to exclude assets, liabilities and results of operations and cash flows related to the discontinued operations. Restatement of these balances may make reconciliation or reference to previously filed financial statements difficult.

The following table summarizes results from discontinued operations (in thousands):

	Years Ended		
	Mar. 31, 2009	**Mar. 31, 2008**	**Mar. 31, 2007**
Net sales	$ 23,214	$ 22,577	$ 24,023
Cost of sales	11,965	11,299	13,567
Gross margin	11,249	11,278	10,456
Operating expenses:			
Research and development	7,870	8,348	7,945
Selling, general and administrative	511	643	641
Special charges and credits	3,123	-	-
Total operating expenses	11,504	8,991	8,586
Operating income (loss)	(255)	2,287	1,870
Other, net	11	(18)	(15)
Total other income (expense), net	11	(18)	(15)
Net income (loss) before provision for income taxes	(244)	2,269	1,855
Provision for income taxes	128	446	641
Net income (loss) from discontinued operations	(372)	1,823	1,214
Gain from sale of discontinued operations, net of tax	21,606	-	-
Net income from discontinued operations	$ 21,234	$ 1,823	$ 1,214

The following table summarizes assets and liabilities classified as discontinued operations (in thousands):

	Mar. 31, 2009	Mar. 31, 2008
ASSETS:		
Current assets:		
Accounts receivable, net	$ 960	$ 4,631
Inventories	-	1,505
Prepaid expenses and other current assets	-	397
Total current assets of discontinued operations	960	6,533
Property, plant and equipment, net	-	2,009
Other assets	-	194
Total assets of discontinued operations	$ 960	$ 8,736
LIABILITIES:		
Current liabilities:		
Accounts payable	$ 1,256	$ 2,275
Income taxes payable	-	22
Accrued compensation and employee benefits	-	132
Other accrued liabilities	-	8
Deferred income, net of costs	-	296
Total current liabilities of discontinued operations	1,256	2,733
Other non-current tax liabilities	-	-
Total liabilities of discontinued operations	$ 1,256	$ 2,733

The following table summarizes the gain on sale of discontinued operations (in thousands):

	Mar. 31, 2009
Gross proceeds from sale	$ 31,000
10% Escrow	(3,100)
Reimbursable items	281
Transactions costs	(3,219)
Other charges and expenses including taxes	(1,229)
Cost of inventory related to the sale	(2,127)
Gain from sale of discontinued operations, net of tax	$ 21,606

NOTE 4. SPECIAL CHARGES AND CREDITS

Fiscal 2009 Special Charges and Credits Analysis

Associated with the Companyộs continued focus to reduce costs and streamline its activities, the Company completed its plan to outsource its test production operations formerly performed in its Philippines facility to third parties, completed a worldwide workforce reduction including consolidation and elimination of certain office sites, began the outsource of certain IT functions and hardware facilities to third parties and consolidated its Headquarters functions onto one floor of its San Jose facility. During fiscal 2009, the Company incurred $3.1 million of reorganization, severance and termination costs including $1.1 million associated with its test outsource, $1.6 million for its worldwide workforce reduction, and $0.4 million of severance and other costs related to certain office closures and consolidations. The Company also wrote-off certain assets totaling $1.5 million, including $0.8 million of lease costs, leasehold improvements and obsolete equipment associated with its San Jose headquarters consolidation and $0.7 million pertaining to facilities, hardware and software costs for its IT outsource plan.

Additionally, the Company incurred an impairment charge of $1.7 million relating to certain intangible assets originally created by the adoption of fresh-start accounting on its emergence from bankruptcy in 2002. Consistent with SFAS 144, ñAccounting for the Impairment or Disposal of Long-Lived Assetsò and SFAS 142, ñGoodwill and Other Intangible Assetsò, we annually review the carrying values of goodwill and intangible assets to determine if portions of the carrying value may be impaired. Based upon its analysis, the carrying value of goodwill of $2.2 million on March 31, 2009, was not impaired as the market value as determined by market capitalization exceeded book value. Based upon relevant factors including the current economic conditions and the sale of a significant portion of its business in February 2009, the analysis of discounted future cash flows indicated the impairment of the remaining carrying value of its intangible assets as of March 31, 2009. Accordingly the Company recorded charges of $1.7 million to fully impair such remaining intangible assets.

Fiscal 2008 Special Charges and Credits Analysis

As part of the Companyôs ongoing efforts to reduce costs and streamline activities, in November 2007, the Company initiated a plan to outsource its test operations previously performed in its Philippines facility to third parties. The Company also reorganized certain of its sales offices and relocated its corporate headquarters to a new facility in San Jose, California. During fiscal 2008, the Company incurred $1.3 million of severance, benefits related costs, transition, conversion and equipment costs related to its test outsourcing activity and other reorganization costs including the relocation to its new corporate headquarters facility, $0.9 million for severance, benefits and other costs related to its research and development site consolidation activities, $0.3 million of period expenses the Company incurred to sustain the dormant MOD II facility until it was sold in May 2007 for a net sales price of $3.1 million, partially offset by $0.5 million credit primarily representing a refund received from its Philippines defined benefit plan.

Fiscal 2007 Special Charges and Credits Analysis

As part of the Companyôs ongoing efforts to reduce costs and streamline activities, in March 2007, a plan of action was initiated to consolidate certain research and development activities and transfer certain of these activities from its Shanghai, China and Seattle, Washington facilities to its San Jose, California and Meridian, Idaho facilities. During fiscal 2007, the Company incurred $1.0 million of severance and benefits costs related to this restructuring activity, which have been recorded as special charges. Other severance and benefit related costs of $0.8 million the Company incurred as a result of changes in Companyôs CEO position including departure costs for the Companyôs former CEO and new hire costs for the Companyôs current CEO, Darin G. Billerbeck. In addition, the Company continued to incur period expenses of $0.6 million to sustain the dormant MOD II facility included in assets held for sale on the consolidated balance sheets as of March 31, 2007. In May 2007, the MOD II facility was sold for a net sales price of $3.1 million.

Special charges and credits in fiscal 2009, fiscal 2008 and fiscal 2007 were as follows (in thousands):

	Years Ended		
	Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007
Asset impairments:			
Impairment of intangible assets	$ 1,727	$ -	$ -
Write-off of property, plant, equipment and other assets	1,504	-	-
Restructuring of operations:			
Reorganization, severance and termination benefits	3,188	2,252	1,859
Defined benefit plan refund and other	(101)	(526)	-
MOD II sustaining and other selling costs	-	248	612
Total special charges and credits	$ 6,318	$ 1,974	$ 2,471

The following table details the beginning balance as of March 31, 2007 and the accrued special charges for the periods indicated (in thousands):

	Severance and Termination Benefits	MOD II Closure Costs	Total
Balance at March 31, 2007	1,215	-	1,215
Provisions to special charges	1,726	248	1,974
Cash payments	(2,452)	(248)	(2,700)
Balance at March 31, 2008	$ 489	$ -	$ 489
Provisions to special charges	2,160	-	2,160
Cash payments	(2,011)	-	(2,011)
Balance at March 31, 2009	$ 638	$ -	$ 638

NOTE 5. RETIREMENT AND PENSION PLANS

The Company has an employee savings plan that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code (the ñ401(k) Planò). Under the 401(k) Plan, participating U.S. employees may defer a portion of their pretax earnings, up to the Internal Revenue Service annual contribution limit. The Company may make matching contributions on behalf of each participating employee in an amount equal to 100% of the participantôs deferral contribution, up to 1.5% of the participantôs compensation on a quarterly basis. The Company may also make additional discretionary contributions to the 401(k) Plan. Matching contributions to the 401(k) Plan were $0.1 million for fiscal year ended March 31, 2009, $0.2 million for the fiscal year ended March 31, 2008 and $0.1 million for the fiscal year ended March 31, 2007. There were no discretionary contributions made in the fiscal years ended March 31, 2009, 2008 and 2007, respectively.

The Companyôs Philippines subsidiary maintains a defined benefit pension plan for local employees, which is consistent with local statutes and practices. As of March 31, 2009, the pension plan was over-funded by approximately $0.3 million which is classified as other assets on the consolidated balance sheet. The over-funded position reflects a decline in the number of employees who are eligible for entitlements under the plan and the associated projected benefit obligation as compared to the fair value of the plan. During fiscal 2009, $0.2 million is included as a reclassification adjustment of other comprehensive income as a result of being recognized as a component of net periodic benefit costs for fiscal 2009.

In April 2007, the Company requested, and was granted, certain contribution refunds and in May 2007, the Company received $0.7 million.

The Company adopted SFAS 158, which supersedes the previous accounting under SFAS 87 and its associated literature, for the fiscal year ended March 31, 2008.

NOTE 6. STOCK-BASED COMPENSATION AND STOCKHOLDERS’ EQUITY

Common Stock

The following description summarizes information regarding the Companyôs capital stock after confirmation of the plan of reorganization. This information is subject in all respects to applicable provisions of ZiLOGôs amended and restated certificate of incorporation and its amended and restated bylaws.

General

The Companyôs authorized capital stock consists of 60,000,000 shares of common stock, par value $0.01 per share. The holders of outstanding shares of common stock are entitled to receive dividends or distributions as may be lawfully declared by the Board of Directors. In the event that the corporation is dissolved, the holders of common stock would be entitled to share ratably in all assets that may be available for distribution after the satisfaction of all liabilities. The common stock has no preemptive or conversion rights and is not subject to redemption. All outstanding shares of common stock are fully paid and non-assessable.

Voting

The holders of common stock are entitled to one vote per share on all matters submitted to a vote of stockholders. The holders of a majority of the outstanding shares of common stock must approve all matters brought before the stockholders, except as otherwise required by the Delaware General Corporation Law and except as otherwise set forth below.

Employee Stock Purchase Plan

The 2004 Employee Stock Purchase Plan (ñ2004 ESPPò) was adopted by the Compensation Committee of the Companyôs Board of Directors on December 17, 2003 and was approved by the Companyôs stockholders on February 12, 2004. The 2004 ESPP became effective on May 15, 2004. A total of 1,250,000 shares of common stock have been reserved for issuance under the 2004 ESPP to eligible employees. These shares will be either authorized as un-issued shares, or shares that have been reacquired by the Company. The 2004 ESPP is implemented by 12-month offering periods, each of which is composed of four 3-month purchase periods. Four overlapping offering periods generally commence during each fiscal year, with an offering period commencing on the first day of each fiscal quarter. Four purchase periods also commence during each fiscal year, with a purchase period commencing on the first day of each fiscal quarter. An eligible employee is granted an option at the start of the offering period to purchase shares of the Companyôs common stock with payroll deductions ranging from 1% to 15% of their eligible compensation during the offering period. The payroll deductions are accumulated and, at the end of each purchase period, applied to purchase shares of common stock, unless the employee withdraws from the 2004 ESPP prior to such date. The purchase price is the lower of 85% of the fair market value of the common stock either on the first business day of the applicable offering period or the last business day of the purchase period within such offering period.

At March 31, 2009, a total of 323,054 shares of the Companyôs common stock have been purchased under the 2004 ESPP, leaving a total of 926,946 shares available to be purchased.

Stock Repurchase Programs

The Companyôs Board of Directors approved the 2003 stock repurchase program on April 17, 2003, under which the Company may repurchase up to 500,000 shares of its outstanding common stock. As of March 31, 2009, the Company had repurchased 405,164 shares of its common stock under this program from employees, former employees and others, pursuant to repurchase rights, at an aggregate cost of $2.1 million.

The Companyôs Board of Directors approved the 2004 stock repurchase program on July 29, 2004, pursuant to which the Company may repurchase up to $5.0 million in market value of its outstanding shares of common stock. As of March 31, 2009, the Company had repurchased 572,100 shares under this program at an aggregate cost of $4.4 million.

Other stock repurchases were approved by the Board of Directors and include the repurchase of 92,735 shares of common stock from a former officer in 2004 at a fair market purchase price of $6.20 per share in consideration for the repayment of loans payable to the Company totaling $0.6 million, the repurchase of 17,389 shares from former employees during fiscal 2006, as consideration for the repayment of loans payable to the Company totaling less than $0.1 million and the repurchase of 73,151 shares during fiscal 2007 from the Company's Chief Financial Officer, Perry J. Grace, as consideration for the repayment of loans payable to the Company totaling less than $0.3 million Additionally, during fiscal 2009, the Company repurchased 23,313 shares of common stock from its former Chief Technical Officer, Norm Sheridan and 23,261 shares of common stock from its Chief Financial Officer, Perry Grace having a combined value of approximately $0.1 million to cover withholding taxes in connection with the release of vested shares of common stock.

As of March 31, 2009, stock repurchases for the 2003 and 2004 stock repurchase programs and other stock repurchases totaled 1,207,113 shares with a net aggregate cost of $7.6 million, which are comprised of the following:

	Treasury Shares Outstanding		
	Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007
2003 Repurchase Program	405,164	405,164	405,164
2004 Repurchase Program	572,100	572,100	572,100
Other Repurchases	229,849	183,275	110,124
Ending Balance	1,207,113	1,160,539	1,087,388
Net aggregate cost ($000's)	$ 7,563	$ 7,456	$ 7,174

2004 Omnibus Stock Incentive Plan

The 2004 Omnibus Stock Incentive Plan (the ñ2004 Planò) was adopted by the Compensation Committee of the Companyôs Board of Directors on December 17, 2003 and was approved by the Companyôs stockholders on February 12, 2004. The 2004 Plan became effective on March 10, 2004. The 2004 Plan was amended and approved by the Companyôs stockholders on September 6, 2007. Under the 2004 Plan, the committee may grant incentive stock options (ñISOò), non-statutory stock options (ñNSOò) or restricted shares to certain employees, officers, directors, advisors and consultants of the Company who may purchase up to 3,000,000 shares of the Companyôs common stock, par value $0.01 per share.

In general, the options and shares granted pursuant to the 2004 Plan are exercisable at such time or times, and subject to such terms and conditions (including the vesting schedule, period of exercisability and expiration date) as the Compensation Committee determines, in the applicable option agreement. The exercise price per share, payable upon the exercise of an option, is established by the committee at the time of the grant and is not less than the par value per share of common stock on the date of the grant and in the case of an ISO generally is not less than 100% of the fair market value per share on the date of grant.

In general, restricted stock awards granted pursuant to the 2004 Plan are subject to the restricted stock award agreement that reflects the terms, conditions and restrictions related to the restricted stock award. The agreement includes, among other things, the period during which the restricted stock is subject to forfeiture, the imposition of any performance-based conditions or other restrictions on the award, if any.

2002 Omnibus Stock Incentive Plan

Common Stock

The 2002 Omnibus Stock Incentive Plan (the ñOmnibus Planò) was adopted by the Board of Directors in May 2002. Subject to adjustment pursuant to the terms of the Omnibus Plan, the Compensation Committee of the Board of Directors may grant options to purchase up to an aggregate of 1,058,140 shares of the Companyôs common stock. Stock options granted under the Omnibus Plan were permitted to be: (1) incentive stock options or non-qualified stock options, or (2) EBITDA-linked options and/or non-EBITDA linked options. The term of a non-EBITDA-linked option is determined by the Compensation Committee at the time of grant, but will not exceed ten years.

Each EBITDA-linked option will be immediately exercisable on the date of grant and cliff-vest on the sixth anniversary from the date of grant. Vesting can be accelerated for EBITDA-linked options based on the ñadjusted EBITDA,ò as defined, reported for the immediately preceding 12-month period as follows: (1) one-third if the Company reports adjusted EBITDA for the previous 12 months in excess of $17.2 million, (2) two-thirds if the Company reports adjusted EBITDA for the previous 12 months in excess of $25.7 million, and (3) 100% if the Company reports adjusted EBITDA for the previous 12 months in excess of $30.0 million.

In accordance with Securities and Exchange Commission guidelines, EBITDA figures presented in this Form 10-K represent a non-GAAP measure of liquidity. EBITDA reflects net income (loss) adjusted for non-cash items, interest and income taxes. Management uses a separate ñadjusted EBITDAò calculation for purposes of determining certain employeesô incentive compensation and, subject to meeting specified adjusted EBITDA amounts, for accelerating the vesting of EBITDA-linked options. This measure of adjusted EBITDA was approved as part of the plan of reorganization. Adjusted EBITDA excludes interest, income taxes, effects of changes in accounting principles and equity adjustments and non-cash charges such as depreciation, amortization, in-process research and development, and stock-based compensation expense. It also excludes cash and non-cash charges associated with special charges and credits, which represent operational restructuring charges, including asset write-offs, employee termination costs, and lease termination costs. The differences between EBITDA and ZiLOGôs adjusted EBITDA relate to the following cash-settled reorganization and special items that are added-back in adjusted EBITDA computations:

Å Employee retention bonuses, severance pay and termination benefits;

Å Professional fees for debt restructuring;

Å Lease termination costs;

Å Termination and exit charges; and

Å MOD III closure costs.

At March 31, 2009, 167,285 shares of EBITDA-linked options were vested and outstanding (granted, net of cancellations and exercises) even though the adjusted EBITDA thresholds have not been satisfied. The per share exercise price of shares purchasable under an EBITDA-linked option is $5.52 and each such option will be exercisable for ten years after the date such option is granted, unless earlier terminated. In general, non-EBITDA-linked options granted pursuant to the Omnibus Plan will be exercisable at such time or times and subject to such terms and conditions (including the vesting schedule, period of exercisability and expiration date) as the Compensation Committee determines, in the applicable award agreements or thereafter. The exercise price per share payable upon the exercise of an option will be established by the committee, in its sole discretion, at the time of grant.

Restricted Stock

The Company is permitted to grant up to 1,220,930 restricted shares of common stock under the Omnibus Plan. The restricted shares granted vest in accordance with the terms stipulated for each individual grant as approved by the Compensation Committee of the Companyҫs Board of Directors at the time of grant.

The Omnibus Plan was amended by the Companyҫs Board of Directors on October 18, 2002, subsequent to the passing of the Sarbanes-Oxley Act of 2002, and no longer allows the Compensation Committee to make loans available to participants with respect to certain restricted stock awards for the payment of any federal or state income tax attributable to the restricted stock award.

When a holder of restricted shares exercises their right of ownership before the restricted share is vested, the holder will receive shares of restricted stock equal to the number of shares exercised. If the holder terminates employment or service before the restrictions on the restricted stock have lapsed, then the Company has the right to repurchase these shares.

At March 31, 2009 there were no outstanding loans to officers of the Company.

Stock-based Compensation

For the fiscal years ended March 31, 2009, March 31, 2008 and March 31, 2007, respectively, the Company recorded $1.3 million, $0.7 million and $1.3 million, respectively, of stock-based compensation expense for continuing operations.

Stock based compensation expense, for continuing operations, for the fiscal year ended March 31, 2009 includes the grant of 234,600 shares associated with the first half fiscal 2009 employee incentive plan. No awards were granted in the second half as incentive goals were not achieved. A total of 167,138 shares of restricted stock have been granted for the fiscal 2010 employee incentive plan. Such shares are earned by certain employees and restrictions removed only when certain cash generation targets are achieved or on change in control of the Company.

Stock Plan Activity

A summary of the Companyôs stock plan activity for the periods indicated is as follows:

	Shares Available for Grant	Options Outstanding		Weighted-Average Exercise Price (per share)	Average Remaining Contractural Term (in years)	($000's) Aggregate Intrinsic Value
Balance as of March 31, 2006	1,121,381	1,803,309	$	6.45	8.02	$247
Restricted shares granted	(116,386)	-		0.01		
Options granted	(777,050)	777,050		4.07		
Options exercised	-	(122,067)		2.04		
Options cancelled	672,235	(672,235)		6.88		
Restricted shares cancelled	75,500	-		0.01		
Balance as of March 31, 2007	975,680	1,786,057	$	5.55	7.99	$782
Approved shares added to plan	1,500,000	-		-		
Restricted shares granted	(27,114)	-		-		
Options granted	(761,923)	761,923		3.49		
Options exercised	-	(100,670)		3.08		
Options cancelled	364,574	(364,574)		5.73		
Restricted shares cancelled	24,350	-		-		
Restricted shares repurchased	73,151	-		-		
Balance as of March 31, 2008	2,148,718	2,082,736		4.89	7.98	$323
Approved shares added to plan	-	-		-		
Restricted shares granted	(265,268)	-		-		
Options granted	(94,139)	94,139		3.21		
Options exercised	-	(5,240)		2.70		
Options cancelled	356,591	(356,591)		4.57		
Restricted shares cancelled	79,595	-		-		
Options PP Adj per Valuation Disclosure	481	(481)		4.89		
Balance as of March 31, 2009	2,225,978	1,814,563		4.87	6.15	$3

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (i.e., the difference between the Companyôs closing stock price on the last trading day of each respective fiscal year ended March 31, and the exercise price, times the number of shares) that would have been received from the option holders had all option holders exercised their options on March 31. This amount changes as the fair market value of the Companyôs stock fluctuates. There were 5,240 options exercised during the years ended March 31, 2009 with a total intrinsic value of $14 thousand. Total intrinsic value of options vested and expected to vest is approximately $3 thousand as of March 31, 2009.

The following table summarizes information about stock options outstanding as of March 31, 2009:

	Options Outstanding				Options Exercisable		
Range of Exercise Prices per share	Number Shares Outstanding	Weighted-Average Remaining Contractual Life (in years)		Weighted-Average Exercise Price (per share)	Shares Exercisable		Weighted-Average Exercise Price (per share)
$2.16-$2.85	189,228	6.12	$	2.69	126,907	$	2.69
$3.14-$3.15	19,750	9.33		3.14	8,438		3.14
$3.16-$3.16	324,663	7.80		3.16	125,168		3.16
$3.19-$3.85	215,320	8.11		3.56	131,981		3.52
$3.91-$4.29	123,398	6.01		4.07	87,984		4.07
$4.31-$4.31	400,000	7.83		4.31	216,667		4.31
$4.41-$5.43	71,500	6.10		4.61	49,417		4.63
$5.52-$5.52	247,954	1.97		5.52	244,204		5.52
$6.20-$12.44	212,600	3.51		11.31	212,600		11.31
$13.58-$14.30	10,150	0.23		13.69	10,150		13.69
$2.16-$14.30	1,814,563	6.15	$	4.87	1,213,516	$	5.47

Options that were exercisable as of March 31, 2009, 2008 and 2007 were 1,213,516, 724,393 and 625,922, respectively.

Stock-Based Compensation

The Company has a stock-based compensation program that includes non-statutory stock option awards and restricted stock awards (ñRSAsò). Stock options are generally time-based, vesting 25% on the first anniversary of the grant-date and monthly thereafter over four years and expire ten years from the grant-date.

The following table sets forth the total stock-based compensation expense resulting from stock options, restricted stock awards and ESPP included in the respective expense categories of the Companyôs consolidated statements of operations (in thousands):

Expense Category	Years Ended Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007
Cost of sales	$ 137	$ 126	$ 66
Research and development	221	177	205
Selling, general and administrative	966	418	1,076
	$ 1,324	$ 721	$ 1,347

No income tax benefit was realized from stock option exercises during the fiscal years ended March 31, 2009, 2008 and 2007. In accordance with SFAS 123R, the Company presents excess tax benefits from the exercise of stock options, if any, as financing cash flows rather than operating cash flows.

The weighted-average exercise price of options granted for the fiscal years ended March 31, 2009, 2008 and 2007, were $3.21, $3.49 and $4.07 per share, respectively.

The fair value of stock-based awards was estimated on the date of grant using the Black-Scholes valuation pricing model

Stock Options	Years Ended Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007
Risk-free interest rate	2.6%	3.8%	4.7%
Estimated life in years	4.8	5.0	5.0
Dividend yield	0.0%	0.0%	0.0%
Volatility	51.9%	45.3%	45.9%

based on the following weighted-average assumptions:

The fair value of employee stock purchases was estimated using the Black-Scholes valuation pricing model based on the following weighted-average assumptions:

Employee Stock Purchase Plan

	Years Ended Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007
Risk-free interest rate	2.4%	3.5%	4.8%
Estimated life in years	0.7	0.8	0.6
Dividend yield	0.0%	0.0%	0.0%
Volatility	57.6%	38.6%	50.6%

The Company calculates its expected volatility based on the historical and implied volatility of a peer group of publicly traded entities as the Company has lacked sufficient historical market data on its common stock commensurate with its expected term. The historical volatility is based on the daily closing common stock prices of the peer group over a period equal to the expected term of the option. Market-based implied volatility is determined using market data from actively traded options of the peer group's stock. These options are at-or near-the-money traded options and are at a point in time as close to the grant of the employee options as reasonably practical and with similar terms to the employee share options, or a remaining maturity of at least 6 months if no similar terms are available. The Company does not believe that one estimate is more reliable than any other and as such uses a 50/50 blend of historic and market-based implied volatility to determine volatility when calculating incentive stock compensation expense. Effective April 1, 2009, beginning the Companyᾰs 2010 fiscal year, the Company expects to use its own volatility measures as there will be sufficient trading history to cover the expected term of the Companyᾰs option grants.

The computation of expected life is based on a combination of historical and expected exercise patterns. The interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant.

The weighted-average exercise price of options granted and the weighted-average fair value of employee stock purchases are as follows:

	Years Ended		
	Mar. 31, 2009	**Mar. 31, 2008**	**Mar. 31, 2007**
Weighted-average exercise price of options granted during the period	$ 3.21	$ 3.49	$ 4.07
Weighted-average fair value of employee stock options granted durung the period	$ 1.49	$ 1.59	$ 1.89
Weighted-average fair value of employee stock purchases under employee stock purchase plan during the period	$ 0.87	$ 0.86	$ 0.78

As of March 31, 2009, $1.0 million of total unrecognized compensation costs related to stock options are expected to be recognized over a weighted-average remaining period of 2.1 years. The total unrecognized compensation costs related to RSAs as of March 31, 2009 of $25,000 are expected to be recognized over a weighted-average remaining period of 0.2 years.

NOTE 7. DEFERRED INCOME

The Company ships products to distributors who, contractually have rights of return and/or price protection on unsold merchandise held by them. As such, revenue and the associated product costs are deferred until products are resold by the distributors to end users (sell-through method). Although revenue is deferred until it is resold, title of products sold to distributors transfers upon shipment. Accordingly, shipments to distributors are reflected in the consolidated balance sheets as accounts receivable and a reduction of inventories at the time of shipment. Deferred revenue and the corresponding cost of sales on shipments to distributors that are unsold are reflected in the consolidated balance sheets on a net basis as ñDeferred income, net of costsò.

On February 18, 2009, the Company sold its universal remote control and secured transactions processor businesses. Of the total consideration approximately $3.1 million remains in escrow at March 31, 2009 to account for any unexpected post-transaction discrepancies. The escrow is scheduled to be released 50% after 6 months and 100% after 12 months. This escrow amount is also included in other current assets on the consolidated balance sheet at March 31, 2009.

The following table represents the details of deferred income for the periods indicated (in thousands):

	Mar. 31, 2009	Mar. 31, 2008
Deferred gross income on shipments to distributors	$ 7,899	$ 8,174
Deferred cost associated with shipments to distributors	(2,975)	(2,900)
Deferred income on shipments to distributors, net	4,924	5,274
Discontinued operations , deferred income on shipments to distributors, net	-	297
Discontinued operations, deferred income on escrow	3,100	-
Total deferred income, net	$ 8,024	$ 5,571

NOTE 8. SHORT TERM DEBT

During the fiscal year ended March 31, 2008, the Company entered into a short term financing agreement totaling $1.4 million. Borrowings on the agreement bear interest at a rate per annum equal, at the Companyọs option, at the Lenderọs stated prime rate or LIBOR, plus 1.75%. As of March 31, 2009, the company had $0.3 million of borrowings outstanding and $0.3 million in standby letters of credit, respectively, issued to vendors. As of March 31, 2008, the Company had $0.7 million of borrowings outstanding under this agreement and $0.3 million of standby letters of credit, respectively, issued to vendors.

NOTE 9. NET INCOME (LOSS) PER SHARE

The following table presents the calculation of basic and diluted net loss per share of common stock for the periods indicated (in thousands, except per share data):

	Years Ended		
	Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007
Net income (loss), as reported	$ 3,184	$ (9,291)	$ (9,038)
Weighted-average shares, basic	17,031	16,893	16,665
Weighted-average shares, diluted	17,114	16,893	16,665
Basic and diluted net income (loss) per share	$ 0.19	$ (0.55)	$ (0.54)

At March 31, 2009, March 31, 2008 and March 31, 2007, options to purchase 1.9 million, 1.6 million and 1.3 million shares of common stock, respectively, are excluded from the determination of diluted net income (loss) per share, as the effect of such shares is anti-dilutive.

NOTE 10. INCOME TAXES

The components of income (loss) before provision for income taxes are as follows (in thousands):

	Years Ended		
	Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007
United States	$ (4,574)	$ (1,152)	$ (2,100)
Foreign	8,081	(6,840)	(4,750)
Total income (loss) before provision for income taxes	$ 3,507	$ (7,992)	$ (6,850)

The provision for income taxes consists of the following (in thousands):

	Years Ended		
	Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007
Federal			
Current	$ (13)	$ 1,069	$ (226)
Deferred	-	-	1,760
	(13)	1,069	1,534
Foreign			
Current	322	230	654
	322	230	654
Total consolidated provision for income taxes	$ 309	$ 1,299	$ 2,188
Total provision for income taxes - continuing operations	$ 181	$ 853	$ 1,547
Total provision for income taxes - discontinued operations	128	446	641
Total consolidated provision for income taxes	$ 309	$ 1,299	$ 2,188

The provision for income taxes differs from the amount computed by applying the statutory income tax rate of 34% to income (loss) before taxes. The provision and tax effects of the differences are as follows (in thousands):

	Years Ended		
	Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007
Computed expected benefit	$ 1,196	$ (2,708)	$ (2,329)
Foreign taxes	(2,859)	2,614	628
Foreign losses (benefited) not benefited	-	-	(93)
Deferred tax assets not benefited	1,814	1,278	1,880
Amortization of deferred income tax charge	-	1,320	1,760
Stock-based compensation not deductible	290	-	488
Non-deductible items	145	-	71
Other	(277)	(1,205)	(217)
Total consolidated provision for income taxes	$ 309	$ 1,299	$ 2,188
Total provision for income taxes - continuing operations	$ 181	$ 853	$ 1,547
Total provision for income taxes - discontinued operations	128	446	641
Total consolidated provision for income taxes	$ 309	$ 1,299	$ 2,188

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Companyôs deferred tax liabilities and assets are as follows (in thousands):

		Mar. 31, 2009		Mar. 31, 2008
Deferred tax liabilities:				
Intangible assets	$	(789)	$	(1,791)
Other		(50)		(838)
Total deferred tax liabilities		(839)		(2,629)
Deferred tax assets:				
Net operating loss carryforwards		16,722		16,403
Accruals and allowances not currently deductible		2,212		3,186
Deferred revenue		868		1,219
Tax credit carryforwards		785		271
Property, plant and equipment		3,084		3,018
Total deferred tax assets		23,671		24,097
Net deferred tax assets		22,832		21,468
Valuation allowance		(22,832)		(21,468)
Deferred income taxes	$	-	$	-

Balance Sheet Presentation - Deferred Tax Assets & Liabilities:

		Mar. 31, 2009		Mar. 31, 2008
Total deferred tax assets:	$	839	$	2,629
Less: non-current portion - deferred tax asset		(829)		(2,366)
Net current deferred tax assets	$	10	$	263
Total deferred tax liabilities:	$	(839)	$	(2,629)
Less: non-current portion - deferred tax liability		829		2,366
Net current deferred tax liability	$	(10)	$	(263)

A valuation allowance is required to be recorded if in management's judgment, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based on available evidence, management has concluded that a valuation allowance is necessary to reduce the net deferred tax asset. Accordingly, deferred tax assets have been recognized only to the extent of deferred tax liabilities. The valuation allowance decreased by approximately $1.4 million for the fiscal year ended March 31, 2009 as compared to the fiscal year ended March 31, 2008. This net decrease was primarily attributable to the increases in certain tax credits and state and foreign NOLs.

The Company has federal and state net operating loss carry forwards (ñNOLsò) of $34.5 million and $57.9 million, respectively. The federal NOLs will begin to expire in 2024 if not utilized, and the state NOLs will begin to expire in 2015, if not utilized.

The Company has federal and state research and development tax credit carry forwards of approximately $2.8 million and $2.2 million, respectively. If not utilized, the federal tax credit carry forward will begin to expire in 2025. The California tax credit can be carried forward indefinitely.

In November 2005, the FASB issued Staff Position No. FAS 123(R)-3, ñTransition Election Related to Accounting for Tax Effects of Share-Based Payment Awardsò. The Company has elected to adopt the alternative transition method provided in the FASB Staff Position for calculating the tax effects of stock-based compensation pursuant to SFAS 123(R). The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in capital pool (ñAPIC poolò) related to the tax effects of employee stock-based compensation and to determine the subsequent impact on the APIC pool and Consolidated Statements of Cash Flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS 123(R).

The Company has elected to track the portion of its federal and state net operating loss carryforwards attributable to stock option benefits, in a separate memo account pursuant to SFAS 123(R). Therefore, these amounts are no longer included in the Company gross or net deferred tax assets. Pursuant to SFAS 123(R), the benefit of these net operating loss carryforwards will only be recorded to equity when they reduce cash taxes payable. The amount recorded in the memo account cumulatively as of March 31, 2009 were not material.

The Company adopted the provisions of Financial Standards Accounting Board Interpretation No. 48, ñAccounting for Uncertainty in Income Taxesò, an interpretation of FASB Statement No. 109 ("FIN48") effective April 1, 2007. As of March 31, 2009, the total amount of unrecognized tax benefits including accumulated interest and penalty was approximately $5.4 million of which $4.6 million recorded as a deferred tax asset that is fully offset by a valuation allowance and $0.9 million which if recognized, would affect the Company's effective tax rate. The calculation of unrecognized tax benefits involves dealing with uncertainties in the application of complex global tax regulations. Management assesses the Company's tax positions in light of legislative, bilateral tax treaty, regulatory and judicial developments in the countries in which the Company does business.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Balance at April 1, 2008	$5,167
Additions based on tax positions related to the current year	28
Additions for tax positions of prior years	68
Other ï foreign exchange	125
Balance at March 31, 2009	$5,388

The Company recognizes interest in accordance with Paragraph 15 of FIN48 and recognizes penalties in accordance with Paragraph 16 of FIN48 which are classified as part of income taxes. The total amount of interest and penalty recognized in the fiscal year ended March 31, 2009 is $0.1 million and the accumulated amount of interest and penalty recognized as of March 31, 2009 is $0.1 million.

The Companyôs operations are subject to income and transaction taxes in the United States and in multiple foreign jurisdictions. Significant estimates and judgments are required in determining its worldwide provision for income taxes. Some of these estimates are based on interpretations of existing tax laws or regulations and as a result the proper amount of tax liability may be uncertain.

Tax authorities may challenge the allocation of profits between the Companyôs subsidiaries and may challenge certain tax benefits claimed on its tax returns, and the Company may not prevail in any such challenge. If the Company were not to prevail, it could be subject to higher tax rates or lose certain tax benefit that could result in a higher tax rate.

The Company is subject to taxation in the United States and various states and foreign jurisdictions. There are no ongoing examinations by taxing authorities at this time. The Companyôs various tax years beginning in 2001 through 2008 remain open in various taxing jurisdictions. The Company does not anticipate any significant changes to the FIN48 liability for unrecognized tax benefits within one year of this reporting date of its unrecognized tax benefits.

The Company provides for U.S. income taxes on the earnings of foreign subsidiaries unless they are considered permanently reinvested outside of the U.S. At March 31, 2009, the cumulative amount of earnings upon which U.S. income tax has not been provided is approximately $6.9 million as such earnings are considered permanently reinvested. It is not practicable to determine the U.S. income tax liability that would be payable if such earnings is not reinvested indefinitely.

In connection with its reorganization in 2002, the Company recorded income tax contingencies in accordance with Statement of Financial Accounting Standards No. 5, ñAccounting for Contingencies.ò These contingencies were attributable to the Companyôs reorganization and included contingent liabilities related to the establishment of the MOD III special purpose subsidiary. The Company reverses the contingent liabilities previously recorded as the statute of limitations expires. For the fiscal years ended March 31, 2009 and 2008, the Company recorded a reversal of zero and zero, respectively, of these contingencies from long-term liabilities, with a resulting reduction in goodwill from $6.7 million as of March 31, 2007, to $2.2 million as of March 31, 2008 and March 31, 2009.

During the fiscal year ended March 31, 2009, the fiscal year ended March 31, 2008 and the fiscal year ended March 31, 2007 the Company’s income tax provision was $0.3 million, $1.3 million and $2.2 million, respectively, which primarily reflects amortization of deferred charges, which have been fully amortized as of March 31, 2009 and provisions for taxes in certain profitable foreign jurisdictions. The Company provides for income tax expense in foreign jurisdictions where its foreign subsidiaries operations generate profits that are taxable. The Company’s income tax expense reflects the estimated annual effective tax rate at that time based on projections of operations.

NOTE 11. COMMITMENTS AND CONTINGENCIES

Some of the Company’s leases for facilities and equipment are under non-cancelable operating leases, which expire in fiscal years 2010 through 2014. The facility lease agreements generally provide for base rental rates, which increase at various times during the terms of the leases, and also provide for renewal options at fair market rental value.

Minimum future lease payments under these non-cancelable operating leases at March 31, 2009 are as follows (in thousands):

Fiscal Year	Operating Leases
2010	$ 1,225
2011	1,146
2012	1,219
2013	321
Total minimum lease payments	$ 3,911

There were no non-cancelable operating lease commitments beyond fiscal 2013.

Commitments

The Company is responsible for common area maintenance charges on certain office leases, which are not included in the above table. These charges are generally less than 10% of base rents. Total operating lease expense, including month-to-month rentals, were approximately $1.8 million, $1.9 million and $2.1 million, respectively, for the fiscal years ended March 31, 2009, March 31, 2008 and March 31, 2007.

The Company generally makes purchases under cancelable purchase orders and does not enter into long-term supply agreements. Certain of its wafer foundry, assembly, materials suppliers, software vendors and support tool manufacturers require non-cancelable purchase orders since they often provide products and services tailored to the Company’s specifications.

Summarized in the table below are minimum future commitments under operating leases and non-cancelable purchase obligations as of March 31, 2009 (in thousands):

	Total	Within 1 year	1-3 years	3-5 years	> 5 years
Operating lease obligations	$ 3,911	$ 1,225	$ 2,365	$ 321	$ -
Purchase obligations	4,375	3,348	1,027		
Total	$ 8,286	$ 4,573	$ 3,392	$ 321	$ -

Contingencies

On August 11, 2005, Microchip Technology, Inc. (“Microchip”) filed a patent infringement claim against us in the U.S. District Court of Arizona (case number CV05-2406-PHX-MHM). Microchip alleges that we have infringed, and currently infringe, its patents numbered 5,847,450, 6,696,316 and 6,483,183. Microchip claims that unspecified products of ours, including the Z8 Encore! XP 4K Series of products, infringe these patents and is seeking preliminary and permanent injunctive relief, unspecified damages and costs, including attorneys’ fees. We filed a response to the claims on September 15, 2005 generally denying the claims and challenging the validity of the patents. On January 10, 2006, we filed a request for patent re-examination with the U.S. PTO, which was granted in February and March 2006 for all 3 patents. On April 11, 2008, we received a notice that all of Microchip’s claims under these three patents have been rejected by the U.S. PTO. After this favorable ruling, Microchip filed appeal notices in the U.S. PTO in May 2008. We do not believe it is feasible to predict or determine the outcome or resolution of this litigation at this time. We believe we have meritorious defenses and will defend ourselves against these claims vigorously. We may incur substantial expenses in our defense against these claims. In the event of a determination adverse to us, we may incur substantial monetary liabilities and be required to change our business practices. Either of these could have a material adverse effect on our financial position, results of operations and/or cash flows.

The Company is participating in litigation and responding to claims arising in the ordinary course of business. The Company intends to defend itself vigorously in these matters. The Companyôs management believes that it is unlikely that the outcome of these matters will have a material adverse effect on the Companyôs consolidated financial statements, although there can be no assurance in this regard.

From time to time, the Company has agreed to indemnify and hold harmless certain customers for potential allegations of infringement of intellectual property rights and patents arising from the use of its products. During the ordinary course of business, in certain limited circumstances, the Company has agreed to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally parties with which the Company has commercial relations, in connection with certain intellectual property infringement claims by any third-party with respect to its products and services. The Company has indemnification arrangements that limit its net contingent obligation to pay for defense costs, if any, up to a maximum of $500,000. To date, there have not been any costs incurred in connection with such indemnification arrangements; therefore, there is no accrual of such amounts at March 31, 2009. The Company discloses indemnification liabilities according to FASB Staff Position FIN45-1, "Accounting for Intellectual Property Infringement Indemnifications under SFAS Interpretation No. 45." Under SFAS No. 5, "Loss Contingencies," a claim would be accrued when a loss is probable and the amount can be reasonably estimated. At March 31, 2009, no such amounts are accrued.

On February 18, 2009, we sold our universal remote control and secured transaction processor businesses to Maxim and UEI for approximately $31 million in cash including $3.1 million that is held in escrow to satisfy our indemnification obligations for any losses incurred by Maxim or UEI that may result from inaccuracies in our representations and warranties in the acquisition agreement or our failure to fulfill certain obligations in the acquisition agreement. In certain limited circumstances our indemnification obligations are not limited to the escrow amount. The escrow is scheduled to be released 50% after 6 months and 100% after 12 months.

NOTE 12. RELATED PARTY TRANSACTIONS

In 2002, the Company entered into employment agreements with each of its then named executive officers. In June 2002, prior to the issuance of the Sarbanes-Oxley Act, loans were made to certain executive officers and certain other employees and consultants to pay the income taxes due on the restricted shares of common stock that were granted to them. At March 31, 2009 no loans were outstanding to executive officers, employees or consultants. At March 31, 2007 total loans outstanding were $0.3 million, and are included in other assets on the consolidated balance sheets. Each loan recipient pledged the shares of restricted stock as collateral for these loans pursuant to their stock pledge agreements. All such loans come due five years from the date of issuance and bear interest at 5.5% per annum.

In March 2007, the Companyôs Executive Vice President of Engineering and Operations, Norman G. Sheridan, paid $72,590 in cash to satisfy all of his outstanding loans and interest.

In May 2007, a former consultant paid cash to satisfy an outstanding loan payable to the Company in the amount of $55,000 plus interest.

In September 2007, the Company repurchased 73,151 shares from its Chief Financial Officer, Perry J. Grace to satisfy an outstanding loan plus interest payable to the Company in the amount of $0.3 million.

NOTE 13. FAIR VALUE MEASUREMENTS

Effective April 1, 2008, the Company adopted SFAS No. 159 ñThe Fair Value Option for Financial Assets and Financial Liabilitiesò (ñSFAS No. 159ò). The Company did not elect to adopt the fair value option under this pronouncement which permits entities to choose to measure many financial instruments and certain other items at fair value on a contract by contract basis.

Effective April 1, 2008, the Company adopted SFAS No. 157, ñFair Value Measurementsò (ñSFAS No. 157ò). In February 2008, the Financial Accounting Standards Board (ñFASBò) issued Staff Position No. FAS 157-2, ñEffective Date of FASB Statement No. 157,ò which provides a one-year deferral of the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. In September 2008, the FASB issued Staff Position No. FAS 157-3, ñDetermining the Fair Value of a Financial Asset When the Market for That Asset is Not Activeò, which clarifies the application of SFAS No. 157 in a market that is not active. The Company has adopted the provisions of SFAS No. 157 with respect to its financial assets and liabilities only. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under SFAS No. 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) 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 under SFAS No. 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on the following three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value:

- 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; and
- 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.

In accordance with SFAS 157, the following table represents the Companyôs fair value hierarchy for its financial assets (cash equivalents and available for sale investments) as of March 31, 2009 (in thousands):

	Mar. 31, 2009			
	Fair Value	**Level 1**	**Level 2**	**Level 3**
Money market funds	$ 5,986	$ 5,986	$ -	$ -
Auction rate preferred securities	1,100	-	1,100	-
Total	$ 7,086	$ 5,986	$ 1,100	$ -

Since February 2008, due to various factors including the tightening of liquidity in the financial market, regularly held auctions for Auction Rate Preferred Securities (ñARPSò), have been unsuccessful. Following the failure of these auctions, the Company has received $2.8 million from redemptions of its ARPS. The remaining ARPS balances of $1.1 million as of March 31, 2009, have been classified as long-term investments and continue to pay interest pending their redemption or sale.

In determining fair value, the Company uses various valuation techniques, including market and income approaches to value available-for-sale investments. The availability of observable inputs can vary from instrument to instrument and to the extent that valuation is based on inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. The degree of judgment exercised by the Companyôs management in determining fair value is greatest for instruments categorized in Level 3. All of the Companyôs ARPS have AAA credit ratings, are 100% collateralized and continue to pay interest in accordance with their contractual terms. Additionally, the collateralized asset value ranges exceed the value of ARPS held by the Company by 200 to 300 percent. Accordingly, the remaining ARPS balance of $1.1 million is categorized as Level 2 for fair value measurement under FAS 157 and has been recorded at full par value on the consolidated balance sheet as of March 31, 2009. The Company currently believes the ARPS values are not impaired and as such, no impairment has been recognized against the investment. If future auctions fail to materialize and the credit rating of the issuers deteriorates, the Company may be required to record an impairment charge against the value of its ARPS.

NOTE 14. GEOGRAPHIC AND SEGMENT INFORMATION

Beginning in May 2002, ZiLOG consolidated its business segments into one reportable segment to reflect the change in the manner in which its chief operating decision maker allocates resources and assesses the performance of the Companyôs business. The Company engages primarily in the design, development, manufacture and marketing of semiconductor products. The Company sells its products to distributors and direct customer accounts including original equipment manufacturers (ñOEMsò) and original design manufacturers (ñODMsò) in a broad range of market segments. The Companyôs operations outside the United States consist of a final test and global support facility in the Philippines and sales and support and design centers in certain foreign countries. Domestic operations are responsible for the design, development and the coordination of production planning and shipping to meet worldwide customer commitments. The Philippine facility is reimbursed in relation to its value added with respect to test operations and other functions performed, and certain foreign sales offices receive a commission on export sales within their territory. Accordingly, for financial statement purposes, it is not meaningful to segregate sales or operating profits for the test and foreign sales office operations.

The Company has one broad product category based on product technologies referred to as 8-bit embedded flash and 8-bit classic products. These products within the Companyǿs one reportable segment and can be summarized as follows:

Products	Sample Uses
8-bit products include:	
Embedded flash microcontrollers	Motor control, low-power controllers
Core 8-bit Microcontrollers and Microprocessors	Security systems, battery chargers, industrial controllers, communications products, treadmills
Serial Communications Controllers	Telephone switches/PBX
Modems	Satellite TV set-top box, POS card validation
IrDA transceivers	PDAs, cell phones
TV, PC peripheral and other products	TV, keyboard, pointing device

The following table summarizes the Companyǿs net sales by region and, by channel (in thousands):

	Years Ended		
	Mar. 31, 2009	**Mar. 31, 2008**	**Mar. 31, 2007**
Net sales by region:			
Americas	$ 14,288	$ 16,794	$ 22,635
Asia (including Japan)	15,079	20,251	26,051
Europe	6,790	7,599	9,340
Net sales	$ 36,157	$ 44,644	$ 58,026
Net sales by channel:			
Direct	$ 7,507	$ 9,671	$ 14,658
Distribution	28,650	34,973	43,368
Net sales	$ 36,157	$ 44,644	$ 58,026

Net sales are attributable to the ship-to location of the Companyôs customers as presented in the following table (in thousands):

	Years Ended		
	Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007
United States	$ 14,168	$ 16,794	$ 21,283
Other Foreign Countries	9	-	831
Total North America	$ 14,177	$ 16,794	$ 22,114
Hong Kong (including PRC)	3,497	7,202	11,334
Singapore	4,196	4,920	5,509
Germany	3,273	3,780	5,775
Taiwan	4,379	4,441	4,737
Korea	583	649	789
Other Foreign Countries	6,052	6,858	7,768
Total International	$ 21,980	$ 27,850	$ 35,912
Total Net Sales	$ 36,157	$ 44,644	$ 58,026

The following table shows the location of tangible long-lived assets (in thousands):

	Mar. 31, 2009	Mar. 31, 2008
United States	$ 2,470	$ 5,885
Philippines	447	446
Other	1,609	2,972
Total long-lived assets	$ 4,526	$ 9,303

Major Customers

For the year ended March 31, 2009, two distributors accounted for approximately 42% and 11% of net sales, respectively. For the year ended March 31, 2008, two distributors accounted for approximately 37% and 13% of net sales, respectively. For the year ended March 31, 2007, two distributors accounted for approximately 34% and 15% of net sales, respectively.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANT ON ACCOUNTING AND FINANCIAL DISCLOSURES

There have been no disagreements with our independent registered public accounting firm.

ITEM 9A. CONTROLS AND PROCEDURES

(a) *Disclosure Controls and Procedures*. The Companyõs management, with the participation of the Companyõs Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Companyõs disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the ñExchange Actò)) as of March 31, 2009. Based on such evaluation, the Companyõs Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2009, the Companyõs disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act and are effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Companyõs management, including the Companyõs Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) *Management's Report on Internal Control Over Financial Reporting*. The Companyõs management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is 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.

The Companyõs management, including the CEO and CFO, conducted an evaluation of the effectiveness of its internal control over financial reporting based on the *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the results of this evaluation, the Companyõs management concluded that its internal control over financial reporting was effective as of March 31, 2009.

This annual report does not include an attestation report of the companyõs registered public accounting firm regarding internal control over financial reporting. Managementõs report was not subject to attestation by the companyõs registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only managementõs report in this annual report.

(c) *Internal Control Over Financial Reporting*. There have not been any changes in the Companyõs internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Companyõs internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

MANAGEMENT

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE OF THE REGISTRANT

Executive Officers and Directors

The information required by this item relating to the Companyĝs directors, executive officers and nominees, and compliance with Section 16(a) of the Securities Exchange Act of 1934, is incorporated by reference from ZiLOGĝs Proxy Statement for its September 22, 2009 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended March 31, 2009.

Code of Ethics

We have adopted a Code of Business Conduct and Ethics that applies to our Chief Executive Officer, Chief Financial Officer and Controller and a Code of Ethics for Chief Executive and Senior Financial Officers. The Code of Business Conduct and Ethics and the Code of Ethics for the Chief Executive and Senior Financial Officers are available on our website at www.zilog.com under the heading ñCorporate Governanceò on the Investor Relations page of the website. You may also request a copy of these documents by sending a written request to ZiLOG, Inc. c/o Investor Relations at 6800 Santa Teresa Blvd., San Jose, California 95119.

If any substantive amendments to either the Code of Business Conduct and Ethics or the Code of Ethics for the Chief Executive and Senior Financial Officers are made or any waivers are granted, including any implicit waiver, from a provision of either draft to its Chief Executive Officer, Chief Financial Officer or Controller, the Company will disclose the nature of such amendment or waiver on the Companyĝs website at www.zilog.com or in a report on Form 8-K.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from ZiLOGĝs Proxy Statement for its September 22, 2009 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended March 31, 2009.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated by reference from ZiLOGĝs Proxy Statement for its September 22, 2009 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended March 31, 2009.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated by reference from ZiLOGĝs Proxy Statement for its September 22, 2009 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended March 31, 2009.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Incorporated by reference from ZiLOGĝs Proxy Statement for its September 22, 2009 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended March 31, 2009.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

1. Consolidated Financial Statements and Supplementary Data:

All other schedules are omitted because the information required to be set forth therein is not applicable or is contained in the consolidated financial statements or notes to the consolidated financial statements.

(b) Exhibits:

The exhibits listed in the accompanying exhibit index are filed or incorporated by reference (as stated therein) as part of this annual report.

(c) Financial Statements Schedule:

See Item 15 (a) (2) above.

SCHEDULE II

ZiLOG, INC.
VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

	Balance at Beginning of Period	Additions (Reductions) Charged to Costs and Expenses	Deductions	Balance at Ending of Period
Year ended March 31, 2009:				
Allowance for doubtful accounts	$ 133	$ (4)	$ -	$ 129
Year ended March 31, 2008:				
Allowance for doubtful accounts	$ 132	$ 6	$ (5)	$ 133
Year ended March 31, 2007:				
Allowance for doubtful accounts	$ 170	$ (20)	$ (18)	$ 132

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused the report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 29th day of June 2009.

ZiLOG, INC.

By: /s/Darin G. Billerbeck

Darin G. Billerbeck
President and Chief Executive Officer

Power of Attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Darin Billerbeck and Perry J. Grace, his/her attorneys-in-fact, each with the power of substitution, for him/her in any and all capacities, to sign any amendments to this Report on Form 10-K, and to file the same, with Exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or substitute or substitutes may 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/Darin G. Billerbeck **Darin G. Billerbeck**	President, Chief Executive Officer and Director	June 29, 2009
/s/Perry J. Grace **Perry J. Grace**	Executive Vice President, Chief Financial Officer and Principal Accounting Officer	June 29, 2009
/s/Federico Faggin **Federico Faggin**	Director	June 29, 2009
/s/Richard L. Sanquini **Richard L. Sanquini**	Director	June 29, 2009
/s/Robin A. Abrams **Robin A. Abrams**	Director	June 29, 2009
/s/David G. Elkins **David G. Elkins**	Director	June 29, 2009
/s/Eric Singer **Eric Singer**	Director	June 29, 2009

EXHIBIT INDEX

Exhibit Number	Description
2.1(a)	Joint Reorganization Plan, as confirmed by order of the U.S. Bankruptcy Court for the Northern District of California, dated April 30, 2002.
3.1(h)	Amended and Restated Certificate of Incorporation of ZiLOG, Inc., as amended and corrected.
3.2(i)	Amended and Restated Bylaws of ZiLOG, Inc.
3.3(p)	Amendment to Amended and Restated Bylaws of ZiLOG, Inc.
3.4(q)	Amendment to Amended and Restated Bylaws of ZiLOG, Inc.
4.1(f)	Form of common stock certificate.
4. 2(c)	Form of Restricted Stock Purchase Agreement.
4.3(c)	Form of Non-Qualified EBITDA-Linked Option Grant Agreement.
4.4(t)	Form of Non-Qualified Non-EBITDA-Linked Option Grant Agreement.
4.5(u)	Form of Non-Qualified Option Grant Agreement, Date of Grant (pursuant to the 2004 Omnibus Stock Incentive Plan).
4.6(u)	Form of Non-Qualified Option Grant Agreement, Date of Hire (pursuant to the 2004 Omnibus Stock Incentive Plan).
4.7(u)	Form of Non-Qualified Option Grant Agreement, Fully Vested Date of Grant (pursuant to the 2004 Omnibus Stock Incentive Plan).
10.2(e)	Lease, dated as of December 21, 2001, between ZiLOG, Inc. and The Sobrato Group.
10.3(f)	Distributor Agreement, dated October 23, 2002, between ZiLOG, Inc. and Future Electronics, Inc.
10.4(f)	Form of Full-Recourse Promissory Note.
10.5(f)	Form of Stock Pledge Agreement.
10.6(g)	Summary of 2004 ZiLOG, Inc. Incentive Plan.
10.7(b)	ZiLOG, Inc. 2002 Omnibus Stock Incentive Plan.
10.8(s)	ZiLOG, Inc. 2004 Omnibus Stock Incentive Plan, as amended and restated.
10.9(g)	ZiLOG, Inc. 2004 Employee Stock Purchase Plan.
10.10(k)	Amendment No. 1 to the ZiLOG, Inc. 2004 Employee Stock Purchase Plan.
10.11(k)	Form of Indemnification Agreement between ZiLOG, Inc. and its Directors and Officers.
10.13(m)	Employment Offer Letter dated January 3, 2007 between ZiLOG, Inc. and Darin Billerbeck.
10.14(j)	Form of Change of Control Agreement.
10.15(n)	Change in Control Agreement with Perry J. Grace.
10.16(n)	Change in Control Agreement with Norman G. Sheridan.
10.17(o)	Change in Control Agreement with Darin G. Billerbeck.

Exhibit Number	Description
10.18(r)	Asset Purchase Agreement, dated as of February 18, 2009, by and among Maxim Integrated Products, Inc., Universal Electronics Inc., UEI Cayman Inc., UEI Electronics Private Limited, ZiLOG, Inc. and ZiLOG India Electronics Pvt. Ltd.
10.19	Transition Services Agreement, dated as of February 18, 2009, by and between Maxim Integrated Products, Inc. and ZiLOG Inc.
10.20	Master License Agreement, dated as of February 18, 2009, by and between UEI Cayman Inc. and ZiLOG, Inc.
10.21	License Agreement, dated as of February 18, 2009, by and between Maxim Integrated Products, Inc. and ZiLOG, Inc.
21.1	Subsidiaries of ZiLOG, Inc.
23.1	Consent of Armanino McKenna LLP, independent registered public accounting firm.
24.1	Power of Attorney (see the signature pages of this Annual Report).
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated June 29, 2009.
31.2	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules13a-14 and 15d-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated June 29, 2009.
32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated June 29, 2009.

(a) Incorporated herein by reference to Exhibit 99.1 to the Company’s current report on Form 8-K filed with the Commission on May 15, 2002.
(b) Incorporated herein by reference to the item of the same name filed as an exhibit to the Company’s registration statement on Form S-8 (File No. 333-88416) filed with the Commission on May 15, 2002.
(c) Incorporated herein by reference to the item of the same name filed as an exhibit to the Company’s quarterly report on Form 10-Q filed with the Commission on August 16, 2002.
(e) Incorporated herein by reference to the item of the same name filed as an exhibit to the Company’s annual report on Form 10-K for the fiscal year ended December 31, 2001.
(f) Incorporated herein by reference to the item of the same name filed as an exhibit to the Company’s registration statement on Form S-1/A (File No. 333-98529) filed with the Commission on November 5, 2002.
(g) Incorporated herein by reference to the item of the same name filed as an exhibit to the Company’s registration statement on Form S-1/A (File No. 333-111471) filed with the with the Commission on February 24, 2004 .
(h) Incorporated herein by reference to the item of the same name filed as an exhibit to the Company’s annual report on Form 10-K for the fiscal year ended December 31, 2003.
(i) Incorporated herein by reference to Exhibit 3.1 to the Company’s current report on Form 8-K filed with the Commission on November 21, 2007.
(j) Incorporated herein by reference to Exhibit 99.1 to the Company’s current report on Form 8-K filed with the Commission on December 20, 2005.
(k) Incorporated herein by reference to the item of the same name filed as an exhibit to the Company’s annual report on Form 10-K for the fiscal year ended December 31, 2004.
(m) Incorporated herein by reference to Exhibit 10.1 to the Company’s current report on Form 8-K filed with the Commission on January 8, 2007.
(n) Incorporated herein by reference to the item of the same name filed as an exhibit to the Company's current report on Form 8-K filed with the Commission on October 16, 2007.
(o) Incorporated herein by reference to the item of the same name filed as an exhibit to the Company's current report on Form 8-K filed with the Commission on December 21, 2007.
(p) Incorporated herein by reference to Exhibit 3.3 to the Company’s Quarterly Report on Form 10-Q for the quarter ended June 28, 2008 (filed August 13, 2008).
(q) Incorporated herein by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed with the Commission on February 23, 2009.
(r) Incorporated herein by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed with the Commission on February 23, 2009.

(s) Incorporated herein by reference to Exhibit 99.1 to the Companyỗs Current Report on Form 8-K filed with the Commission on September 12, 2007.

(t) Incorporated herein by reference to Exhibit 4.3 to the Quarterly Report on Form 10-Q filed with the Commission on August 14, 2007.

(u) Incorporated by reference to the item of the same name filed as an exhibit to the Companyỗs Quarterly Report on Form 10-Q with the Commission on November 10, 2004.