AMCC

APPLIED MICRO CIRCUITS CORPORATION

THE SILICON INNOVATION BEHIND TODAY'S GLOBAL COMMUNICATIONS

ANNUAL REPORT FISCAL 1999

Our Mission

To be the premier supplier of high-bandwidth silicon connectivity for the world's communications infrastructure.

Corporate Profile

Applied Micro Circuits Corporation (AMCC) designs, develops, manufactures and markets high-performance, high-bandwidth silicon connectivity solutions for the world's communications infrastructure. The Company utilizes a combination of high-frequency, mixed-signal design expertise, system-level knowledge and multiple silicon process technologies to offer integrated circuit products for the telecommunications markets that address the SONET/SDH and ATM transmission standards and for the data communications markets that address the Gigabit Ethernet, ATM and Fibre Channel transmission standards. The Company also leverages its technology to provide solutions for ATE, high-speed computing and military markets. Among the Company's many customers are Alcatel, Cisco Systems, Lucent Technologies, Nokia, Nortel Networks, Siemens and 3Com.

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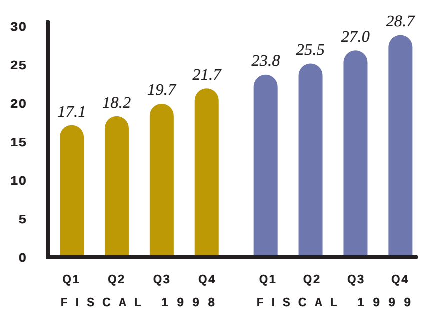
Except for historical information contained herein, the matters set forth herein are forward-looking statements that are subject to certain risks and uncertainties that could cause actual results to differ materially from those set forth in the forward-looking statements, including such factors as demand for the Company's products, fluctuations in manufacturing yields and inventory levels, integrating the marketing and operations of the Company's acquired subsidiaries, the availability of external foundry capacity, purchased parts and inventory levels, timing and amount of investments in research and development, availability of demand for integrated circuits, general overall economic conditions and the risk factors that are detailed in the Company's Annual Report on Form 10-K for the year ended March 31, 1999 and the Company's other filings with the Securities and Exchange Commission.

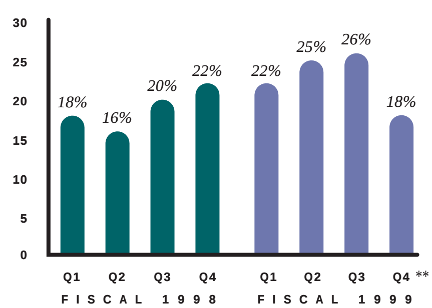
Financial Highlights

(in millions, except per share data)

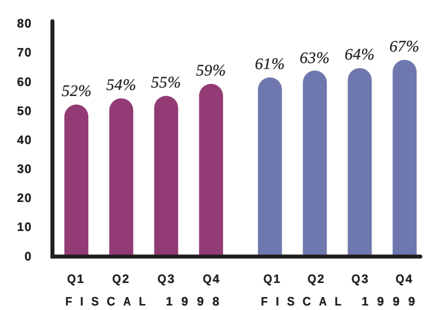
	FY 97	FY 98	FY 99*
FOR THE FISCAL YEAR ENDED MARCH 31			
Net revenues	$ 57.5	$ 76.6	$ 105.0
Operating income	$ 7.0	$ 14.8	$ 23.9
Net income	$ 6.3	$ 15.2	$ 17.1
Earnings per share—diluted	$ 0.35	$ 0.75	$ 0.62
AT MARCH 31			
Cash, cash equivalents & short-term investments	$ 13.6	$ 67.9	$ 86.5
Working capital	$ 19.4	$ 77.4	$ 103.6
Total assets	$ 41.8	$112.8	$ 150.7
Total stockholders' equity	$ 27.7	$ 91.6	$ 121.7



NET REVENUES (IN MILLIONS OF DOLLARS)



OPERATING MARGIN (%)



GROSS MARGIN (%)

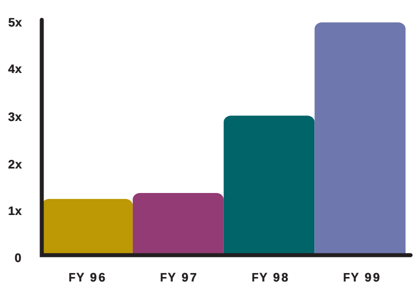
* Amounts were adversely impacted by the merger-related costs of $2.3 million, net of tax, or $0.08 per diluted share.
** The operating margin for the fourth quarter of Fiscal 1999 excluding the merger-related costs of $2.3 million was 27%.

To Our Stockholders and Friends

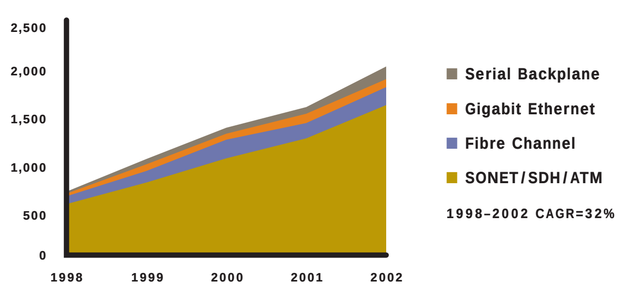
This past year has been an incredibly exciting period of change for AMCC and the markets we serve. In fact, we are experiencing one of the most dynamic times we have ever seen in our industry. For the first time, the IC industry is no longer being driven by the PC, but by communications. The winners in this explosive market will be those IC companies that can deliver end-to-end communications solutions that are reliable, enable high performance and bandwidth and are available now. AMCC is one of these companies.

During fiscal 1999, we strengthened our capabilities to meet these new industry demands, further solidifying AMCC's position as the leader in high-bandwidth silicon connectivity solutions. AMCC acquired Ten Mountains Design in April 1998 and Cimaron Communications Corporation in March 1999, thereby expanding our capabilities to include complete fiber-to-switch connectivity. We built on our OC-48 product portfolio and strengthened our Gigabit-CMOS leadership position. We made significant in-roads into emerging markets such as broadcast HDTV. And we continued to build for our future success, including increasing AMCC's design wins, enhancing margins through improvements in fab utilization and expanding our investments in R&D.

A Year of Solid Financial Performance AMCC has also seen significant growth in our financial strength over the past year. The Company emerged from its twelfth consecutive profitable quarter with annual net revenues exceeding $100 million for the first time in our history.



COMMUNICATIONS DESIGN WIN GROWTH



AMCC ESTIMATED AVAILABLE COMMUNICATIONS MARKET
(in millions of dollars)

Fiscal 1999's all-time high net revenues of $105 million represent an increase of 37% over the $76.6 million reported in fiscal 1998. Net income for fiscal 1999 also increased to $17.1 million, or $0.62 per share ($19.4 million, or $0.71 per share, excluding merger-related costs of $2.3 million, or $0.08 per share), compared to $15.2 million, or $0.75 per share, in fiscal 1998. These net income and earnings-per-share numbers reflect an increase in AMCC's effective tax rate to approximately 34% (excluding the tax impact of merger-related costs) from fiscal 1998's rate of 3%. Additionally, earnings per share reflect the weighted-average increase in shares associated with the Company's public offerings in the second half of fiscal 1998 and AMCC's acquisition of Cimaron Communications in March 1999.

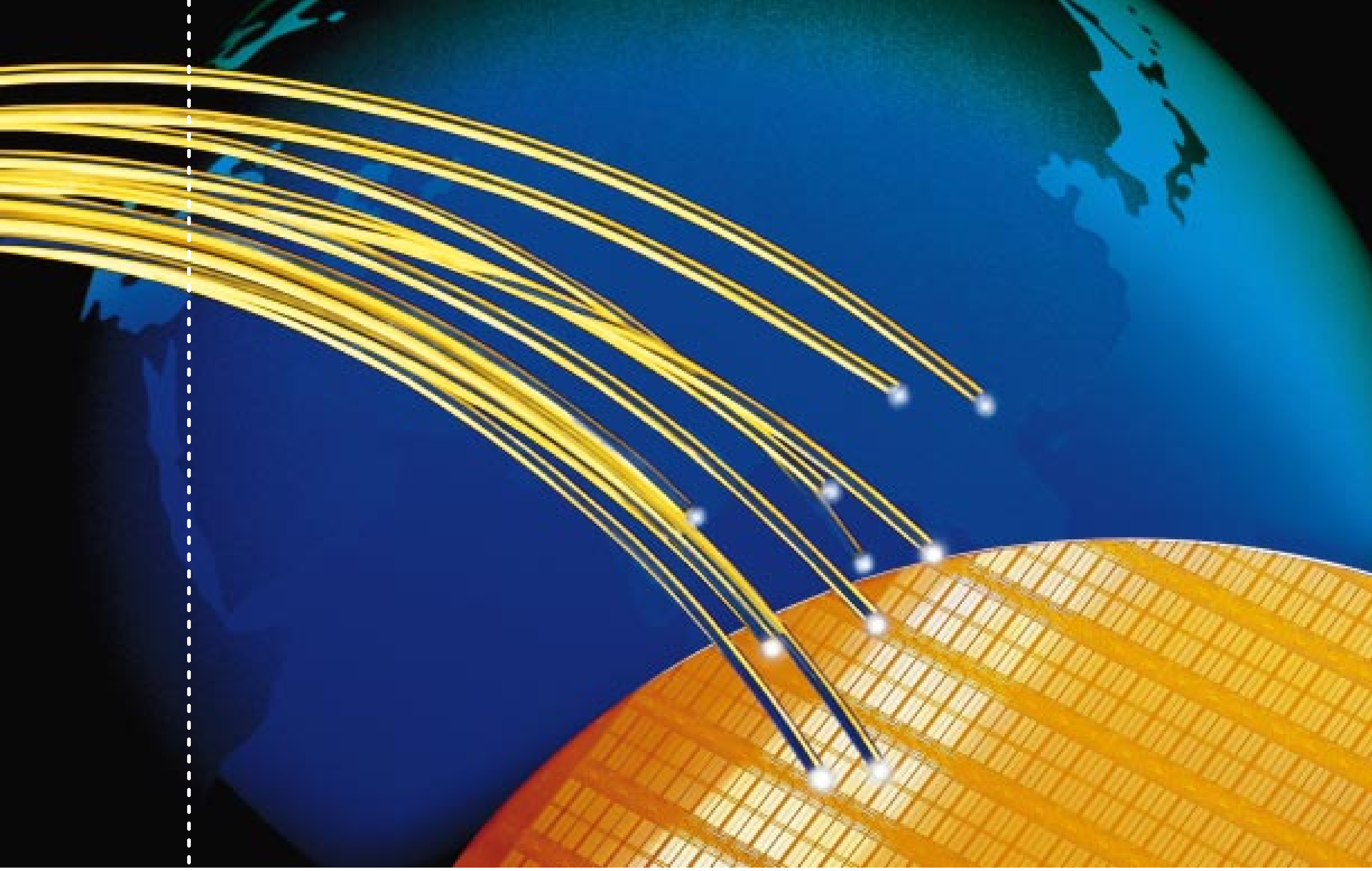
POSITIONED FOR FUTURE SUCCESS Over the past year, there has been a dramatic increase in Internet activity, with users spending more time online sending more information than ever before. Key technologies such as e-commerce and video transmission applications are also emerging, further driving the insatiable demand for bandwidth. At the same time, silicon innovation has taken over as a dominant driver in communications, rapidly increasing its penetration across the network. Silicon delivers exceptional, proven reliability and cost-efficient performance not available from other technologies. If customers can get the solution they need in silicon, they will.

AMCC, a leader in high-speed, high-bandwidth silicon connectivity, delivers the solutions to meet these exploding bandwidth needs. Over the past year, the Company made great strides in expanding our capabilities to address these emerging market opportunities. From advancements in our analog and mixed-signal technologies to our new presence in digital-layer solutions, we are continuing to strengthen AMCC's leadership in our rapidly growing markets.

While AMCC has realized some major accomplishments during fiscal 1999, we are dedicated to improving our technologies, processes and industry partnerships to further position AMCC for success in the future. AMCC is building on our commitment to the SONET/SDH and ATM markets. We are renewing our focus on offering complete solutions up through the digital layer, and on achieving the optimum integration of our technologies. The Company is continuing to leverage its telecom skills into datacom and is exploiting multiple silicon process technologies for maximum results. We are also expanding our global presence with new offices in Milan and Japan, a critical market for AMCC. It is the dedication of every employee to the constant expansion and improvement of our product offerings that we believe will enable AMCC to continue to provide the silicon innovation that will drive tomorrow's global communications.

David M. Rickey

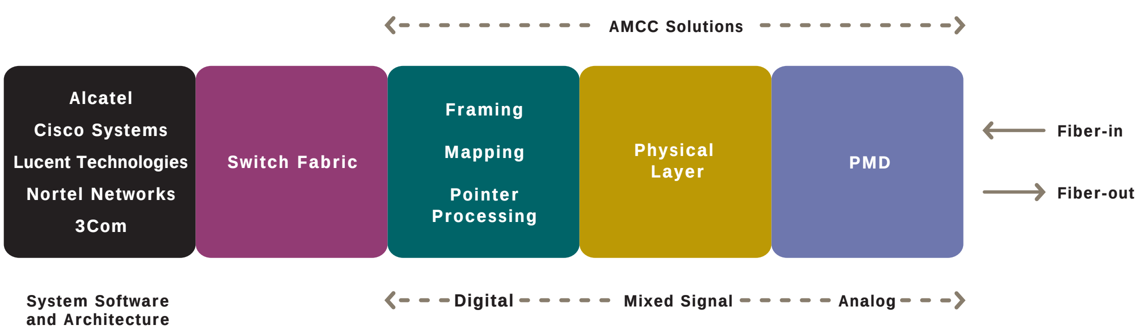
David M. Rickey—*President and Chief Executive Officer*



Customers in the communications market are searching for one partner who can deliver end-to-end solutions in silicon that enable faster time to market. That partner is AMCC.

In April 1998, AMCC acquired Ten Mountains Design, furthering the Company's capabilities in providing high-speed physical layer solutions for both the data communications and telecommunications markets. This Physical Media–Dependent (PMD) technology expertise will be critical as we move into the analog domain of the SONET IC market. With the acquisition

COMMUNICATIONS SYSTEMS



End-to-End Silicon Solutions

of Cimaron Communications in March 1999, AMCC also acquired the framer and mapper expertise needed to extend the Company's capabilities from analog and mixed-signal devices to the digital layer. With these strategic acquisitions, we are now positioned to provide industry-leading, fiber-to-switch silicon solutions, including framers, phys (physical layer) and PMDs. Over the next few years, we are committed to integrating these capabilities into complete systems-on-a-chip. The addition of Ten Mountains Design and Cimaron Communications also expands AMCC's market by an estimated 200–300% through increased breadth of product offering.

We are constantly looking for new ways to expand our expertise in silicon into exciting new technologies to further enhance the Company's total solutions. Over the past three years, AMCC has transformed itself from a bipolar-based company to a leader in high-speed CMOS designs. Our extensive expertise in CMOS allows us to deliver superior high-bandwidth, high-performance standard solutions for our customers' application-specific needs. During fiscal 1999, we also signed a Silicon Germanium (SiGe) agreement with IBM that will enable the development of super-fast, highly integrated solutions and provide AMCC with long-term access to world-leading high-performance silicon process technologies.

MILESTONES 99

April 1998 Acquisition of Ten Mountains Design, a leader in high-speed physical media–dependent solutions for both the data communications and telecommunications markets.

May 1998 Introduction of S2064, the industry's first gigabit-speed quad-channel CMOS transceiver.

July 1998 Signing of Silicon Germanium (SiGe) agreement with IBM providing AMCC with advanced access and use of IBM's current and future generations of SiGe BiCMOS processes and libraries.

November 1998 Introduction of S8401/S8501 serializer/deserializer chipset, the first gigabit-speed High-Definition Serial Digital Interface (HD-SDI) solution, for use in HDTV digital switching and distribution systems.

January 1999 Introduction of S2066 and S2067, quad-channel CMOS transceivers for Gigabit Ethernet and Fibre Channel networks, respectively.

January 1999 Introduction of S3049 (laser driver), S3053 (quad mux with fan out buffers) and S3054 (dual 2x2 crosspoint switch), significantly expanding AMCC's OC-48 DWDM and SONET/SDH portfolio.

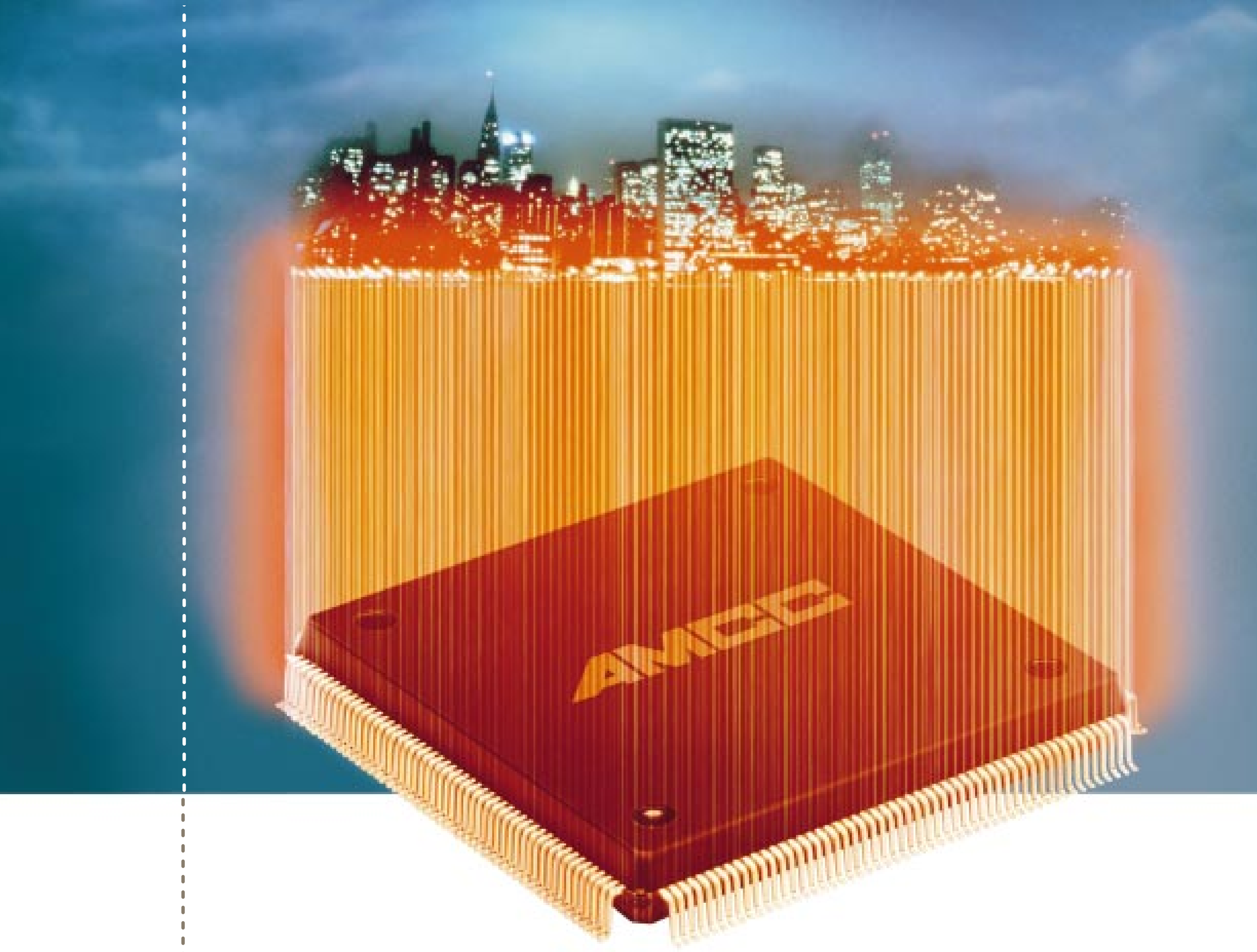
January 1999 Introduction of S3038, the first fully integrated SONET/SDH OC-12 quad transceiver.

March 1999 Acquisition of Cimaron Communications, a leader in the design and development of digital silicon solutions and ASIC cores for high-speed SONET systems.

March 1999 Exceeded $100 million in annual net revenues for the first time in the Company's history.

March 1999 Introduction of S1203 Explorer IC, a SONET/SDH overhead processing and termination device for OC-3, -12 and -48 applications, adding higher-layer digital content to AMCC's product portfolio.

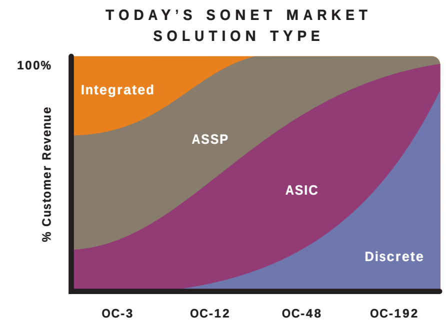
March 1999 Introduction of S3046, a SONET OC-48 transceiver, which has been successfully validated in Alcatel's 1603SMX system.



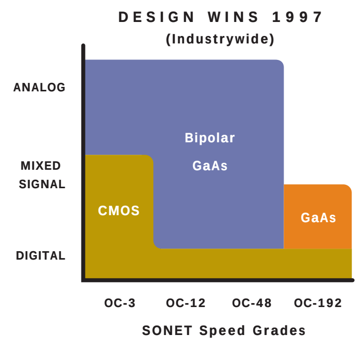
Innovations in communications are bringing the world closer together, including an ever-increasing convergence of datacom and telecom. 1998 was the first year that data accounted for a larger percentage of communications traffic than voice. In just five years, data traffic is expected to account for more than 30 times that of voice. The communications industry is also witnessing the emergence of many start-up Original Equipment Manufacturers (OEMs), as well as an increasing presence of Internet Service Providers (ISPs) in the Wide Area Network (WAN).

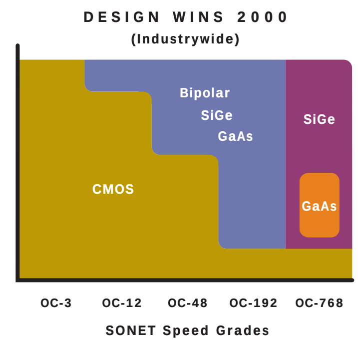
AMCC is focused on providing everything customers are looking for in a communications IC partner. This includes world-class expertise in digital, mixed-signal and analog design technologies; systems and applications knowledge in framer/mapper applications, PMD and the physical layer; access to leading CMOS and SiGe BiCMOS technologies; and the highest levels of integration. The Company has a solid reputation for providing high-performance silicon for the communication markets, with a strong focus on SONET/SDH, ATM, Gigabit Ethernet and Fibre Channel solutions. We are also known for our world-class expertise in analog, digital and mixed-signal design and can now offer a greater number of solutions for an ever-increasing audience.

Powering Tomorrow's Communications Networks



"Silicon Cycle": As technologies mature, their revenue attributes increasingly resemble those on the left side of the chart (i.e., a larger percentage of integrated sales and a decreasing percentage of discrete sales).





AMCC's strength of product offering comes from exploiting multiple silicon process technologies for specific market applications. These technologies include CMOS as it climbs the performance curve, bipolar and BiCMOS for high-speed, analog applications and SiGe for super-fast, highly integrated solutions.

The Company backs this product innovation with state-of-the-art manufacturing resources; we have been ISO9001 certified since July 1996. AMCC also continues to leverage its advanced bipolar and BiCMOS process technologies at its internal wafer fabrication facility to deliver reliable, high-performance solutions.

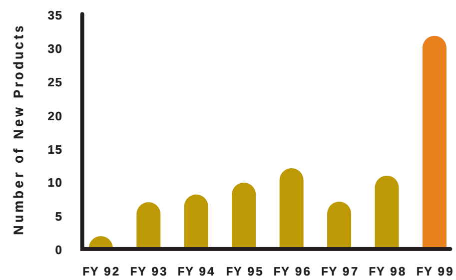
Because AMCC is dedicated to maintaining the highest level of quality and supply predictability, the Company uses multiple foundries for CMOS, including TSMC, AMI, KLSI and IBM. To enable more cost-effective production, we also perform most assembly offshore, with most of the testing being done in-house. Listening to what our customers need allows us to deliver standard parts to meet specific requirements, which improves our customers' time to market by eliminating the long development cycles required with application-specific solutions. This customer-driven performance—combined with our dedication to foundry-produced CMOS technologies—enables us to deliver leading-edge CMOS solutions at competitive prices.

AMCC's extensive industry experience, combined with our end-to-end solutions in multiple silicon technologies, positions AMCC well for design wins in both existing and emerging markets.

WAN AMCC provides a broad range of high-performance, comprehensive solutions for the WAN market, including ATM and SONET/SDH physical-layer transceivers, clock and data recovery units, framers, mappers, pointer processors, amplifiers and laser drivers. During fiscal 1999, the Company expanded its solutions with product advancements for today's high-speed, high-bandwidth 2.5 Gbps (gigabits-per-second) OC-48 applications. AMCC also entered into a SiGe agreement with IBM for the development of 10 Gbps OC-192 solutions for the next generation of high-speed products.

LAN Over the past year, we have built on our wide range of advanced data communications products, which includes physical-layer transceivers for Gigabit Ethernet and Fibre Channel applications, as well as crosspoint switches for serial backplanes. Today, our SiliconHiway™ product family includes a full spectrum of silicon solutions for both physical-layer and PMD devices that delivers superior performance and consistent high-bandwidth connectivity across the communications infrastructure.

ADVANCED SOLUTIONS FOR EVOLVING MARKETS



NEW PRODUCT ANNOUNCEMENTS

ADDITIONAL MARKETS AMCC has made significant in-roads into emerging markets with products such as PCI controllers and high-frequency clock drivers and clock generators for the high-speed computing market. In addition, the Company delivers high-performance, low-power Application-Specific Integrated Circuit (ASIC) products for the ATE and military markets. During the past year, AMCC entered into the HDTV market with the first High-Definition Serial Digital Interface (HD-SDI) 1.485 Gbps data retimer, serializer and deserializer. With this introduction, the Company is paving the way for low-cost, low-power digital communications for the studio broadcast environment, as well as connectivity to Fibre Channel, Dense Wavelength Division Multiplexing (DWDM) and SONET/SDH networks.

Over the past year, we have witnessed the continued growth explosion in the communications market and the many exciting new applications this growth is bringing about. We also know, however, that this is just the beginning. That's why AMCC is more committed than ever before to delivering more advanced, integrated, forward-thinking solutions to enable the next generation of high-speed global communications.

Glossary

ATE (AUTOMATED TEST EQUIPMENT) Equipment that is used for the comprehensive testing of ICs, printed circuit boards and electronic systems. Generally, ATE equipment requires ICs that operate at faster speeds and have more precise timing than the ICs being tested.

ATM (ASYNCHRONOUS TRANSFER MODE) Very high-speed transmission technology. ATM is a high-bandwidth, low-delay, connection-oriented, packet-like switching and multiplexing technique.

BICMOS A process that combines the speed of bipolar technology with the low power capability of CMOS technology.

BIPOLAR A process technology that employs silicon as the substrate upon which to fabricate circuits. The circuits are based on fast-switching bipolar transistor structures.

CMOS (COMPLEMENTARY METAL OXIDE SEMICONDUCTOR) A process technology that employs silicon as the substrate upon which to fabricate circuits. The CMOS integrated circuit design is based on MOS Field Effect Transistor (FET) structures. CMOS technology offers low power consumption and small component dimensions.

DATA COMMUNICATIONS The transfer of encoded information over electrical or optical transmission systems between points.

DWDM (DENSE WAVELENGTH DIVISION MULTIPLEXING) A high-speed means of increasing the capacity of SONET fiber-optic transmission systems through the multiplexing of multiple wavelengths of light.

FIBRE CHANNEL A set of standards developed by ANSI (American National Standards Institute). Fibre Channel provides a practical and inexpensive means of rapidly transferring data between workstations, mainframes, supercomputers, desktop computers, storage devices, displays and other peripherals.

FRAMER A device that adjusts the timing of the receiver component to coincide with that of the receiving framing signals.

GIGABIT ETHERNET A local area network standard used for connecting computers, printers, workstations, terminals, servers, etc. within the same building or campus. Gigabit Ethernet operates over coaxial and fiber optic cable at speeds of 1.25 Gbps.

Gbps Gigabits per second.

HDTV (HIGH-DEFINITION TELEVISION) Television offering approximately twice the vertical and horizontal resolution of current NTSC analog television broadcasting, as well as superior sound quality, extremely flat screen depth, high reliability and low power consumption.

MAPPER A device that assigns a logical association of one set of values, such as addresses on one network, with quantities or values of another set, such as devices on another network.

MIXED-SIGNAL IC Monolithic ICs that contain both digital and analog circuitry.

OC-3,-12,-48,-192 (OPTICAL CARRIER LEVEL-3, -12,-48,-192) A SONET optical signal. SONET data rates of 155 Mbps, 622 Mbps, 2.5 Gbps and 9.6 Gbps, respectively.

PMD (PHYSICAL MEDIA DEPENDENT) The sublayer defining the parameters at the lowest level, such as speed of the bits on the media.

SDH (SYNCHRONOUS DIGITAL HIERARCHY) A set of standard fiber optic–based serial standards very similar to SONET used throughout the world except in North America and Japan.

SERIAL BACKPLANE A board that distributes signals serially to various ports of a switching system.

SILICON Traditional semiconducting material used for fabricating ICs.

SiGe (SILICON GERMANIUM) A process technology that employs a Germanium-doped silicon substrate upon which to fabricate circuits. This enables much higher data rates than are possible with traditional silicon processes.

SONET (SYNCHRONOUS OPTICAL NETWORK) SONET is an optical interface standard used in North America and Japan that allows interoperability of transmission products from multiple vendors very similar to SDH. The standard specifies a family of fiber-optic transmission rates from 52 Mbps to 10 Gbps, created to provide the flexibility needed to transport many digital signals with different capacities and to provide a design standard for manufacturers.

TELECOMMUNICATIONS The transmission, reception and the switching of signals, such as electrical or optical, by wire, fiber or electromagnetic means.

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SELECTED CONSOLIDATED FINANCIAL DATA

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)	March 31, 1995	1996	1997	1998	1999
Net revenues	$46,950	$50,264	$57,468	$76,618	$105,000
Increase (decrease) in revenues over prior year	(6%)	7%	14%	33%	37%
Cost of revenues	27,513	34,169	30,057	34,321	37,937
Gross profit	19,437	16,095	27,411	42,297	67,063
% of revenues	41%	32%	48%	55%	64%
Research and development	10,108	8,283	7,870	13,268	22,472
% of revenues	22%	16%	14%	17%	21%
Selling, general and administrative	10,112	11,232	12,537	14,278	18,325
% of revenues	22%	22%	22%	19%	17%
Merger-related costs	—	—	—	—	2,350
% of revenues	—	—	—	—	2%
Total operating expenses	20,220	19,515	20,407	27,546	43,147
% of revenues	43%	39%	36%	36%	41%
Operating income (loss)	(783)	(3,420)	7,004	14,751	23,916
% of revenues	(2%)	(7%)	12%	19%	23%
Interest income (expense), net	(358)	(242)	(29)	871	3,450
Income (loss) before income taxes	(1,141)	(3,662)	6,975	15,622	27,366
% of revenues	(2%)	(7%)	12%	20%	26%
Provision (benefit) for income taxes	(70)	32	659	406	10,233
Effective income tax rate	NM	0%	10%	3%	37%
Net income (loss)	$ (1,071)	$ (3,694)	$ 6,316	$15,216	$ 17,133
Increase in net income over prior year	NM	NM	NM	141%	13%
% of revenues	(2%)	(7%)	11%	20%	16%
Diluted earnings (loss) per share	$ (0.06)	$ (0.21)	$ 0.35	$ 0.75	$ 0.62
Shares used in calculating diluted earnings (loss) per share (in thousands)	17,194	17,394	17,907	20,294	27,430

NM=Not Meaningful

SELECTED CONSOLIDATED FINANCIAL DATA

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)	March 31, 1995	1996	1997	1998	1999
Assets					
Current assets:					
Cash, cash equivalents and short-term investments	$ 7,114	$ 8,818	$13,597	$ 67,896	$ 86,540
Accounts receivable, net	8,882	9,476	8,418	12,179	19,275
Inventories	8,724	6,836	7,530	8,185	9,813
Other current assets	893	724	698	6,266	9,392
Total current assets	25,613	25,854	30,243	94,526	125,020
Property and equipment, net	14,567	11,929	10,768	17,218	23,128
Other assets	—	53	803	1,090	2,507
Total assets	$40,180	$37,836	$41,814	$112,834	$150,655
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable	$ 2,128	$ 3,981	$ 2,428	$ 5,215	$ 5,131
Other current liabilities	2,789	4,252	5,789	9,274	13,335
Current portion of long-term debt and capital lease obligations	3,943	3,644	2,662	2,620	2,937
Total current liabilities	8,860	11,877	10,879	17,109	21,403
Long-term debt and capital lease obligations, less current portion	6,515	4,447	3,192	4,091	7,558
Stockholders' equity	24,805	21,512	27,743	91,634	121,694
Total liabilities and stockholders' equity	$40,180	$37,836	$41,814	$112,834	$150,655

OTHER FINANCIAL INFORMATION

(in thousands, except employee data)	March 31, 1995	1996	1997	1998	1999
Working capital	$16,753	$13,977	$19,364	$ 77,417	$103,617
Total long-term debt and capital lease obligations	10,458	8,091	5,854	6,711	10,495
Total long-term debt and capital lease obligations to equity ratio	42%	38%	21%	7%	9%
Additions to property, equipment and other assets	$ 6,204	$ 2,627	$ 4,055	$ 11,624	$ 16,490
% of revenues	13%	5%	7%	15%	16%
Depreciation and amortization	$ 5,092	$ 5,311	$ 5,185	$ 5,174	$ 7,045
% of revenues	11%	11%	9%	7%	7%
Number of employees at end of year	252	251	256	320	361

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

QUARTERLY FINANCIAL INFORMATION FOR FISCAL 1998 AND FISCAL 1999

(in thousands, except per share data)	Fiscal Year Ended March 31, 1998				1999*			
Fiscal quarter	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net revenues	$17,053	$18,155	$19,666	$21,744	$23,814	$25,472	$26,972	$28,742
Cost of revenues	8,156	8,378	8,836	8,951	9,399	9,347	9,669	9,522
Gross profit	8,897	9,777	10,830	12,793	14,415	16,125	17,303	19,220
% of revenues	52%	54%	55%	59%	61%	63%	64%	67%
Operating expenses:								
Research and development	2,525	3,477	3,337	3,929	4,893	5,454	5,847	6,278
Selling, general and administrative	3,339	3,391	3,530	4,018	4,164	4,296	4,573	5,292
Merger-related costs	—	—	—	—	—	—	—	2,350
Total operating expenses	5,864	6,868	6,867	7,947	9,057	9,750	10,420	13,920
% of revenues	34%	38%	35%	37%	38%	38%	39%	48%
Operating income	3,033	2,909	3,963	4,846	5,358	6,375	6,883	5,300
% of revenues	18%	16%	20%	22%	22%	25%	26%	18%
Interest income, net	66	85	143	577	853	877	883	837
Income before income taxes	3,099	2,994	4,106	5,423	6,211	7,252	7,766	6,137
% of revenues	18%	16%	21%	25%	26%	28%	29%	21%
Provision for income taxes	81	78	103	144	2,227	2,584	2,646	2,776
Effective income tax rate	3%	3%	3%	3%	36%	36%	34%	45%
Net income	$ 3,018	$ 2,916	$ 4,003	$ 5,279	$ 3,984	$ 4,668	$ 5,120	$ 3,361
% of revenues	18%	16%	20%	24%	17%	18%	19%	12%
Diluted earnings per share	$ 0.16	$ 0.16	$ 0.20	$ 0.23	$ 0.15	$ 0.17	$ 0.19	$ 0.12
Shares used in calculating diluted earnings per share	18,941	18,594	20,383	23,257	26,665	27,296	27,619	28,140

*The quarterly information for the fiscal year ended March 31, 1999 has been restated from the information presented in the Company's Quarterly 10-Q filings for the quarters ended June 30, 1998, September 30, 1998 and December 31, 1998 to reflect the acquisition of Cimaron Communications Corporation completed on March 17, 1999 as if the companies had been combined for the full year.

MARKET PRICE ON COMMON STOCK

Stock Prices	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4
High			$ 13 ½	$ 24 ⅜	$ 30	$ 30	$ 40 ⅝	$ 46 ¾
Low			$ 8	$ 12 ¼	$ 17 ⅝	$ 12 ⅞	$ 12 ¼	$ 32 ⅞
End			$ 12 ⅜	$ 22 ½	$ 25 ⅞	$ 14 ⅞	$ 33 ⅞	$ 42 ¾

The Company's Common Stock is traded on the Nasdaq Market System ("Nasdaq") under the symbol AMCC. The table above sets forth, for the fiscal quarters indicated, the high, low and quarter-end sale prices of the Common Stock as reported by Nasdaq (rounded to the nearest ⅛). The Company's Common Stock began trading on Nasdaq at the time of its initial public offering on November 25, 1997.

The Company has never paid dividends on its Common Stock and presently intends to continue this policy.

At March 31, 1999, there were approximately 418 holders of record of the Company's Common Stock.

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Annual Report and in conjunction with the Company's Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. The Company's actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under "Factors That May Affect Future Results" in the Company's Form 10-K. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. The Company assumes no obligation to update these forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements.

OVERVIEW

AMCC designs, develops, manufactures and markets high-performance, high-bandwidth silicon solutions for the world's communications infrastructure. The Company tailors solutions to customer and market requirements by using a combination of high-frequency analog, mixed-signal and digital design expertise coupled with system-level knowledge and multiple silicon process technologies. AMCC believes that its internal bipolar and BiCMOS processes, complemented by advanced CMOS and silicon germanium processes from external foundries, enable the Company to offer high-performance, high-speed solutions optimized for specific applications and customer requirements. The Company further believes that its products provide significant cost, power, performance and reliability advantages for system OEMs in addition to accelerating time-to-market. The Company also leverages its technology to provide products for the automated test equipment (ATE), high-speed computing and military markets.

On March 17, 1999, the Company acquired Cimaron Communications Corporation ("Cimaron") in a business combination accounted for as a pooling-of-interests. Cimaron, which also designs and develops high-bandwidth silicon solutions for communications equipment manufacturers, became a wholly owned subsidiary of the Company through the exchange of approximately three million shares of the Company's Common Stock for all the outstanding stock and stock options of Cimaron. The financial statements for fiscal 1999 have been prepared as if the companies had been combined for the full year and the prior year financial statements did not require restatement as a result of this business combination.

RESULTS OF OPERATIONS

The following table sets forth certain selected consolidated statements of income data in dollars and as a percentage of revenues for the periods indicated:

(in thousands, except per share data)	Fiscal Year Ended March 31, 1997		1998		1999	
	$	%	$	%	$	%
Net revenues	$57,468	100.0%	$76,618	100.0%	$105,000	100.0%
Cost of revenues	30,057	52.3	34,321	44.8	37,937	36.1
Gross profit	27,411	47.7	42,297	55.2	67,063	63.9
Operating expenses:						
Research and development	7,870	13.7	13,268	17.3	22,472	21.4
Selling, general and administrative	12,537	21.8	14,278	18.6	18,325	17.5
Merger-related costs	—	—	—	—	2,350	2.2
Total operating expenses	20,407	35.5	27,546	35.9	43,147	41.1
Operating income	7,004	12.2	14,751	19.3	23,916	22.8
Net interest income (expense)	(29)	(0.1)	871	1.1	3,450	3.3
Income before provision for income taxes	6,975	12.1	15,622	20.4	27,366	26.1
Provision for income taxes	659	1.1	406	0.5	10,233	9.8
Net income	$ 6,316	11.0%	$15,216	19.9%	$ 17,133	16.3%
Diluted earnings per share:						
Earnings per share	$ 0.35		$ 0.75		$ 0.62	
Shares used in calculating diluted earnings per share	17,907		20,294		27,430	

COMPARISON OF THE YEAR ENDED MARCH 31, 1999 TO THE YEAR ENDED MARCH 31, 1998

NET REVENUES. Net revenues for the year ended March 31, 1999 were approximately $105.0 million, representing an increase of 37% over net revenues of approximately $76.6 million for the year ended March 31, 1998. Revenues from sales of communications products increased 56% in the year ended March 31, 1999 from $36.6 million or 48% of net revenues for the year ended March 31, 1998 to $57.3 million or 55% of net revenues for the year ended March 31, 1999, reflecting unit growth in shipments of existing products as well as the introduction of new products for these markets. Revenues from sales of products to other markets, consisting of the ATE, high-speed computing and military markets, decreased from 52% of net revenues for the year ended March 31, 1998 to 45% of net revenues for the year ended March 31, 1999, although revenues from sales to these other markets increased in absolute dollars. The increase in absolute dollars in revenues attributed to these other markets was primarily due to $10.0 million of shipments in the year ended March 31, 1999, relating to the partial fulfillment of an end-of-life order from Raytheon Systems Co. Total sales to Raytheon Systems Co. accounted for 16% of net revenues in the year ended March 31, 1999 and were less than 10% of net revenues in the year ended March 31, 1998. Sales to Nortel accounted for 20% and 21% of net revenues for the years ended March 31, 1999 and 1998, respectively. In the years ended March 31, 1999 and 1998, Insight Electronics, Inc., the Company's domestic distributor, accounted for 13% and 11% of net revenues, respectively. Sales outside of North America accounted for 24% and 23% of net revenues for the years ended March 31, 1999 and 1998, respectively. Although less than seven percent of the Company's revenues were attributable to sales in Asia for the year ended March 31, 1999, the recent economic instability in certain Asian countries could adversely affect the Company's business, financial condition and operating results, particularly to the extent that this instability impacts the sales of products manufactured by the Company's customers.

GROSS MARGIN. Gross margin was 63.9% for the year ended March 31, 1999, as compared to 55.2% for the year ended March 31, 1998. The increase in gross margin resulted from increased utilization of the Company's wafer fabrication facility. The Company's gross margin is primarily impacted by factory utilization, manufacturing yields, product mix and the Company's timing of depreciation expense and other costs associated with expanding its manufacturing capacity. Although AMCC does not expect its gross margin to continue to increase at the rate reflected above, its strategy is to maximize factory utilization whenever possible, maintain or improve its manufacturing yields, and focus on the development and sales of high-performance products that can have higher gross margins. There can be no assurance, however, that the Company will be successful in achieving these objectives. In addition, these factors can vary significantly from quarter to quarter, which would likely result in fluctuations in quarterly gross margin and net income.

RESEARCH AND DEVELOPMENT. Research and development ("R&D") expenses increased 69% to approximately $22.5 million, or 21.4% of revenues, for the year ended March 31, 1999 from approximately $13.3 million, or 17.3% of net revenues, for the year ended March 31, 1998. The substantial increase in R&D expenses was due to the Company's acquisition of Cimaron Communications Corporation ("Cimaron"), which incurred approximately $2.5 million of R&D expenses during its fiscal year, and accelerated new product and process development efforts, including a $3.2 million increase in compensation costs and a $3.9 million increase in prototyping and outside contractor costs. The Company believes that a continued commitment to R&D is vital to maintain a leadership position with innovative communications products. Accordingly, the Company expects R&D expenses to increase in absolute dollars and possibly as a percentage of net revenues in the future. Currently, R&D expenses are focused on the development of products and processes for the communications markets, and the Company expects to continue this focus.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative ("SG&A") expenses were approximately $18.3 million, or 17.5% of revenues, for the year ended March 31, 1999 as compared to approximately $14.3 million, or 18.6% of net revenues, for the year ended March 31, 1998. The increase in SG&A expenses for the year ended March 31, 1999 was primarily due to a $2.1 million increase in personnel costs, a $500,000 increase in commissions earned by third-party sales representatives, a $500,000 increase in product promotion expenses and a $400,000 increase in legal and accounting costs. A portion of such increases was due to the Company's acquisition of Cimaron. The decrease in SG&A expenses as a percentage of net revenues for the year ended March 31, 1999 was a result of net revenues increasing more rapidly than SG&A expenses. The Company expects SG&A expenses to increase in the future due principally to additional staffing in the Company's sales and marketing departments, as well as increased spending on information technology and increased product promotion expenses.

MERGER-RELATED COSTS. In March 1999, the Company acquired all of the outstanding Common Stock and Common Stock equivalents of Cimaron in exchange for approximately three million shares of the Company's Common Stock. The acquisition has been accounted for using the pooling-of-interests method of accounting. Costs associated with this merger of $2.3 million or $0.08 per diluted share were expensed in the quarter ended March 31, 1999.

OPERATING MARGIN. The Company's operating margin increased to 22.8% of net revenues for the year ended March 31, 1999, compared to 19.3% for the year ended March 31, 1998, principally as a result of the increase in gross margin and decrease in SG&A expenses as a percentage of net revenues, partially offset by the increase in R&D expenses as a percentage of net revenues.

NET INTEREST INCOME. Net interest income increased to $3.5 million for the year ended March 31, 1999 compared to $871,000 for the year ended March 31, 1998. This increase was due principally to higher interest income from larger cash and short-term investment balances generated from operations and the proceeds from the Company's public offerings completed during the second half of the year ended March 31, 1998.

INCOME TAXES. The Company's annual effective tax rate for the year ended March 31, 1999, which approximated statutory rates, was 37.4% compared to an effective tax rate of 2.6% for the year ended March 31, 1998. The effective tax rate for the year ended March 31, 1998 was decreased from statutory rates due to the reduction of a valuation allowance recorded against deferred tax assets for net operating loss carryforwards and credits. The Company expects the tax rate for fiscal 2000 to approximate statutory rates.

DILUTED EARNINGS PER SHARE. Diluted earnings per share decreased 17% to $0.62 in the year ended March 31, 1999, compared to $0.75 for the year ended March 31, 1998. The decrease reflects the merger-related costs of $2.3 million, the increase in the effective tax rate and the greater number of shares outstanding, due in part to the Cimaron acquisition, offset in part by the increase in operating income in fiscal 1999.

DEFERRED COMPENSATION. In connection with the grant of certain stock options to employees during the six months ended September 30, 1997, the Company recorded aggregate deferred compensation of $599,000, representing the difference between the deemed fair value of the Common Stock at the date of grant for accounting purposes and the option exercise price of such options. Additionally, during the year ended March 31, 1999, the Company recorded deferred compensation of $2.5 million related to restricted stock and options granted to founders and employees of Cimaron. Such amounts are presented as a reduction of stockholders' equity and amortized ratably over the vesting period of the applicable options. Amortization of deferred compensation recorded for the years ended March 31, 1998 and 1999 was $127,000 and $860,000, respectively. The Company currently expects to record amortization of deferred compensation with respect to these option grants of approximately $658,000, $543,000, $414,000, $330,000 and $178,000 during the fiscal years ended March 31, 2000, 2001, 2002, 2003 and 2004, respectively.

BACKLOG. The Company's sales are made primarily pursuant to standard purchase orders for delivery of products. Quantities of the Company's products to be delivered and delivery schedules are frequently revised to reflect changes in customer needs, and customer orders can be canceled or rescheduled without significant penalty to the customer. For these reasons, the Company's backlog as of any particular date is not representative of actual sales for any succeeding period, and the Company therefore believes that backlog is not a good indicator of future revenue. The Company's backlog for products requested to be shipped and nonrecurring engineering services to be completed in the next six months was $38.2 million on March 31, 1999, compared to $30.1 million on March 31, 1998. Included in backlog at March 31, 1999 is the $9.3 million balance of an order received from Raytheon Systems Co. related to an end-of-life buy for integrated circuits used in its high-speed radar systems.

YEAR 2000 COMPLIANCE. As a semiconductor manufacturer with its own wafer fabrication facility, the Company is dependent on computer systems and manufacturing equipment with embedded hardware or software to conduct its business. The Company has developed and is currently executing a plan designed to make its computer systems, applications, computer and manufacturing equipment and facilities Year 2000 ready. The plan covers five stages including (i) inventory, (ii) assessment, (iii) remediation, (iv) testing and (v) contingency planning. The Company has completed the inventory and assessment stages. The remediation, testing and contingency planning stages are targeted to be completed by October 1999. The Company will primarily utilize internal resources to reprogram, or replace where necessary, and test the software for Year 2000 modifications.

The Company is in the process of communicating with its critical external suppliers to determine the extent to which the Company may be vulnerable to such parties' failure to resolve their own Year 2000 issues. Where practicable, the Company will assess and attempt to mitigate its risks with respect to the failure of these entities to be Year 2000 ready. The effect, if any, on the Company's results of operations from the failure of such parties to be Year 2000 ready, can not reasonably be estimated.

The Company has developed contingency plans for certain critical applications and is working on such plans for others. These contingency plans involve, among other actions, manual workarounds and adjusting staffing strategies.

The Company has incurred and expensed approximately $200,000 related to the Year 2000 project and expects to incur an additional $700,000 on completing the Year 2000 project. Approximately one-half of the costs associated with the Year 2000 project are expected to relate to internal resources that have been reallocated from other projects, with the balance of costs reflecting incremental spending for equipment and software upgrades. The costs of the Year 2000 project are expected to be funded through operating cash flows, with the cost of internal resources expensed as incurred and the cost of equipment and software upgrades capitalized or expensed in accordance with the Company's policy on property and equipment.

The costs of the project and the date on which the Company plans to complete the Year 2000 modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events including the continued availability of certain resources, third-party modification plans and other factors. However, there can be no guarantee that these estimates will be achieved, and actual results could differ materially from those plans. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes and the ability to identify and correct equipment with embedded hardware or software and similar uncertainties.

COMPARISON OF THE YEAR ENDED MARCH 31, 1998 TO THE YEAR ENDED MARCH 31, 1997

NET REVENUES. Net revenues for the year ended March 31, 1998 were approximately $76.6 million, representing an increase of 33% over net revenues of approximately $57.5 million for the year ended March 31, 1997. Revenues from sales of communications products increased from 44% of net revenues for the year ended March 31, 1997 to 48% of net revenues for the year ended March 31, 1998, reflecting unit growth in shipments of existing products as well as the introduction of new products for these markets. Revenues from sales of products to other markets, consisting of the ATE, high-speed computing and military markets, decreased from 56% of net revenues for the year ended March 31, 1997 to 52% of net revenues for the year ended March 31, 1998, although revenues from sales to these other markets increased in absolute dollars. The increase in absolute dollars in revenues attributed to these other markets was primarily due to an increase in shipments of PCI bus products for high-speed computing applications and to increased shipments of products to the ATE market. Sales to Nortel accounted for 21% and 20% of net revenues for the years ended March 31, 1998 and 1997, respectively. In the year ended March 31,1998, one other customer, Insight Electronics, Inc., the Company's domestic distributor, accounted for 11% of net revenues. Sales outside of North America accounted for 23% and 21% of net revenues for the years ended March 31, 1998 and 1997, respectively.

GROSS MARGIN. Gross margin was 55.2% for the year ended March 31, 1998, as compared to 47.7% for the year ended March 31, 1997. The significant increase in gross margin primarily resulted from increased utilization of the Company's wafer fabrication facility, as well as a $1.1 million improvement in manufacturing yields.

RESEARCH AND DEVELOPMENT. Research and development ("R&D") expenses increased 69% to approximately $13.3 million, or 17.3% of net revenues, for the year ended March 31, 1998 from approximately $7.9 million, or 13.7% of net revenues, for the year ended March 31, 1997. The substantial increase in R&D expenses was due to accelerated new product and process development efforts, including a $3.4 million increase in compensation costs and a $1.6 million increase in prototyping and outside contractor costs.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative ("SG&A") expenses were approximately $14.3 million, or 18.6% of net revenues, for the year ended March 31, 1998, as compared to approximately $12.5 million, or 21.8% of net revenues, for the year ended March 31, 1997. The increase in SG&A expenses for the year ended March 31, 1998 was primarily due to a $700,000 increase in compensation costs and a $600,000 increase in commissions earned by third-party sales representatives. The decrease in SG&A expenses as a percentage of net revenues for the year ended March 31, 1998 was a result of net revenues increasing more rapidly than SG&A expenses.

OPERATING MARGIN. The Company's operating margin increased to 19.3% of net revenues for the year ended March 31, 1998, compared to 12.2% for the year ended March 31, 1997, principally as a result of the increase in gross margin and decrease in SG&A expenses as a percentage of net revenues, partially offset by the increase in R&D expenses as a percentage of net revenues.

NET INTEREST INCOME. Net interest income increased to $871,000 for the year ended March 31, 1998 from a net interest expense of $29,000 for the year ended March 31, 1997. This increase was due principally to a $600,000 increase in interest income resulting from larger cash and short-term investment balances generated by the proceeds from the Company's public offerings completed during the year ended March 31, 1998, as well as a $300,000 decrease in interest expense associated with outstanding capital lease and debt obligations.

INCOME TAXES. The Company's annual effective tax rate for the year ended March 31, 1998 was 2.6%. This was due primarily to the reduction of a valuation allowance recorded against deferred tax assets for net operating loss carryforwards and credits in the prior two years. This reduction results from sufficient levels of income for fiscal 1998, which made the realization of these deferred tax assets more likely than not. The effective tax rate of 9.5% for the year ended March 31, 1997 was attributable primarily to alternative minimum taxes ("AMT").

DILUTED EARNINGS PER SHARE. Diluted earnings per share increased 114% to $0.75 in the year ended March 31, 1998, compared to $0.35 for the year ended March 31, 1997.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal source of liquidity as of March 31, 1999 consisted of $86.5 million in cash, cash equivalents and short-term investments. Working capital as of March 31, 1999 was $103.6 million, compared to $77.4 million as of March 31, 1998. This increase in working capital was primarily due to cash provided by operating activities and the proceeds from the sale of Common Stock, offset by the purchase of property, equipment and other assets.

For the years ended March 31, 1999, 1998 and 1997, net cash provided by operating activities was $22.0 million, $16.9 million and $11.7 million, respectively. Net cash provided by operating activities in fiscal 1999 primarily reflected net income before depreciation and amortization expense plus increased accrued liabilities less increases in accounts receivable and inventories. Net cash provided by operating activities in fiscal 1998 primarily reflected net income before depreciation and amortization expense plus increases in accounts payable and accrued liabilities less increases in accounts receivable and deferred income taxes. Net cash provided by operating activities in fiscal 1997 primarily reflected net income before depreciation and amortization expense.

Capital expenditures and the purchase of other assets totaled $16.5 million, $11.6 million and $4.1 million for the years ended March 31, 1999, 1998 and 1997, respectively, of which $6.7 million, $3.6 million and $1.2 million for the years ended March 31, 1999, 1998 and 1997, respectively, were financed using debt or capital leases. In fiscal year 2000, the Company expects to incur approximately $14.0 million in capital expenditures for manufacturing and test equipment, computer hardware and software and the acquisition of land as a site for a potential new wafer fabrication facility. The Company is exploring alternatives for the expansion of its manufacturing capacity, which would likely occur after fiscal year 2000, including expanding its existing 4" wafer fabrication facility, building a new wafer fabrication facility, purchasing a wafer fabrication facility and entering into strategic relationships to obtain additional capacity. Any of these alternatives could require a significant investment by the Company, including an investment in excess of $80.0 million if the Company chose to or was required to build a new wafer fabrication facility. The Company would anticipate financing any such investment through a combination of available cash, cash equivalents and short-term investments, cash from operations and debt and lease financing. Although the Company believes that it will be able to obtain financing for a significant portion of the planned capital expenditures at competitive rates and terms from its existing and new financing sources, there can be no assurance that the Company will be successful in these efforts. Furthermore, there can be no assurance that any of the alternatives for expansion of its manufacturing capacity will be available on a timely basis or at all.

The Company believes that its available cash, cash equivalents and short-term investments and cash generated from operations will be sufficient to meet the Company's capital requirements for the next 12 months, although the Company could be required, or could elect, to seek to raise additional capital during such period. The Company expects that it will need to raise additional debt or equity financing in the future. There can be no assurance that such additional debt or equity financing will be available on commercially reasonable terms or at all.

MARKET RISK

At March 31, 1999, the Company's investment portfolio includes fixed-income securities of $73 million. These securities are subject to interest rate risk and will decline in value if interest rates increase. Due to the short duration of the Company's investment portfolio, an immediate 100 basis point increase in interest rates would have no material impact on the Company's financial condition or results of operations.

The Company generally conducts business, including sales to foreign customers, in U.S. dollars and, as a result, has limited foreign currency exchange rate risk. The effect of an immediate 10 percent change in foreign exchange rates would not have a material impact on the Company's financial condition or results of operations.

FACTORS THAT MAY AFFECT FUTURE RESULTS

The Company's results of operations have varied significantly in the past and may continue to do so in the future. These variations have been, and may in the future be, due to a number of factors, any of which could have a material adverse effect on the Company's business, financial condition and results of operations. These factors include, but are not limited to: the rescheduling or cancellation of orders by customers; fluctuations in the timing and amount of customer requests for product shipments; fluctuations in manufacturing yields and inventory levels; changes in product mix; the Company's ability to introduce new products and technologies on a timely basis; the introduction of products and technologies by the Company's competitors; the availability of external foundry capacity, purchased parts and raw materials; competitive pressures on selling prices; the timing of investments in research and development; market acceptance of the Company's and its customers' products; the integration of operations and personnel as the result of the Company's recent acquisition of Cimaron; the timing of depreciation and other expenses to be incurred by the Company in connection with the increase of capacity for its existing manufacturing facility and in connection with its proposed new manufacturing facility; the timing and amount of recruiting and relocation expenses, prototyping costs and product promotional expenses; costs associated with future litigation, if any, including without limitation, litigation relating to the use or ownership of intellectual property; costs associated with compliance with applicable environmental regulations; general semiconductor industry conditions; and general economic conditions. Historically, average selling prices in the semiconductor industry have decreased over the life of a product and, as a result, the average selling prices of the Company's products may be subject to significant pricing pressures in the future. Because the Company is continuing to increase its operating expenses for personnel and new product development, and because the Company is limited in its availability to reduce expenses quickly in response to any revenue short falls, the Company's business, financial condition and operating results would be adversely affected if increased sales are not achieved. In addition, the Company's operating results may be below the expectations of public market analysts or investors, which could have a material adverse effect on the market price of the Common Stock.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)	Fiscal Year Ended March 31, 1997	1998	1999
Net revenues	$57,468	$76,618	$105,000
Cost of revenues	30,057	34,321	37,937
Gross profit	27,411	42,297	67,063
Operating expenses:			
Research and development	7,870	13,268	22,472
Selling, general and administrative	12,537	14,278	18,325
Merger-related costs	—	—	2,350
Total operating expenses	20,407	27,546	43,147
Operating income	7,004	14,751	23,916
Interest income (expense), net	(29)	871	3,450
Income before income taxes	6,975	15,622	27,366
Provision for income taxes	659	406	10,233
Net income	$ 6,316	$15,216	$ 17,133
Basic earnings per share:			
Earnings per share	$ 1.26	$ 1.44	$ 0.70
Shares used in calculating basic earnings per share	5,006	10,594	24,514
Diluted earnings per share:			
Earnings per share	$ 0.35	$ 0.75	$ 0.62
Shares used in calculating diluted earnings per share	17,907	20,294	27,430

See accompanying notes.

CONSOLIDATED BALANCE SHEETS

(in thousands, except par value)	March 31, 1998	1999
Assets		
Current assets:		
Cash and cash equivalents	$ 6,460	$ 13,530
Short-term investments—available-for-sale	61,436	73,010
Accounts receivable, net of allowance for doubtful accounts of $350 and $177 at March 31, 1998 and 1999, respectively	12,179	19,275
Inventories	8,185	9,813
Deferred income taxes	3,882	4,573
Notes receivable from officer and employees	87	815
Other current assets	2,297	4,004
Total current assets	94,526	125,020
Property and equipment, net	17,218	23,128
Other assets	1,090	2,507
Total assets	$112,834	$150,655
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 5,215	$ 5,131
Accrued payroll and related expenses	5,057	4,689
Other accrued liabilities	2,344	7,207
Deferred revenue	1,873	1,439
Current portion of long-term debt	567	1,862
Current portion of capital lease obligations	2,053	1,075
Total current liabilities	17,109	21,403
Long-term debt, less current portion	2,736	4,995
Long-term capital lease obligations, less current portion	1,355	2,563
Commitments and contingencies (Notes 7 and 11)		
Stockholders' equity:		
Preferred Stock, $0.01 par value:		
Authorized shares—2,000, none issued and outstanding	—	—
Common Stock, $0.01 par value:		
Authorized shares—60,000 at March 31, 1998 and 1999, respectively		
Issued and outstanding shares—22,536 and 26,612 at March 31, 1998 and 1999, respectively	225	266
Additional paid-in capital	86,660	102,525
Deferred compensation, net	(472)	(2,123)
Accumulated other comprehensive income (loss)	—	(33)
Retained earnings	5,722	21,514
Notes receivable from stockholders	(501)	(455)
Total stockholders' equity	91,634	121,694
Total liabilities and stockholders' equity	$112,834	$150,655

See accompanying notes

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)	Convertible Preferred Stock Shares	Convertible Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Notes Receivable From Stockholders	Total Stockholders' Equity
Balance, March 31, 1996	1,223	$12	4,968	$ 49	$ 36,971	$ —	$ —	$(15,444)	$ (76)	$ 21,512
Issuance of stock pursuant to exercise of stock options	—	—	93	1	41	—	—	—	—	42
Repurchase of Common Stock	—	—	(36)	—	(38)	—	—	(107)	—	(145)
Payments on notes	—	—	—	—	—	—	—	—	18	18
Net income	—	—	—	—	—	—	—	6,316	—	6,316
Balance, March 31, 1997	1,223	12	5,025	50	36,974	—	—	(9,235)	(58)	27,743
Issuance of Common Stock, net of issuance costs	—	—	5,039	51	51,942	—	—	—	—	51,993
Conversion of Convertible Preferred Stock to Common Stock	(1,051)	(11)	10,717	107	(96)	—	—	—	—	—
Issuance of stock pursuant to exercise of stock options	—	—	1,702	17	858	—	—	—	(455)	420
Net exercise of warrants	—	—	53	—	—	—	—	—	—	—
Payments on notes	—	—	—	—	—	—	—	—	12	12
Repurchase of Convertible Preferred Stock	(172)	(1)	—	—	(3,617)	—	—	(259)	—	(3,877)
Deferred compensation related to stock options	—	—	—	—	599	(599)	—	—	—	—
Amortization of deferred compensation	—	—	—	—	—	127	—	—	—	127
Net Income	—	—	—	—	—	—	—	15,216	—	15,216
Balance, March 31, 1998	—	—	22,536	225	86,660	(472)	—	5,722	(501)	91,634
Issuance of stock upon formation of Cimaron	—	—	2,344	24	4,640	(230)	—	—	—	4,434
Issuance of Common Stock under employee stock purchase plans	—	—	417	4	3,175	—	—	—	—	3,179
Issuance of stock pursuant to exercise of stock options	—	—	1,315	13	2,524	(964)	—	—	—	1,573
Tax benefit of disqualifying dispositions	—	—	—	—	4,209	—	—	—	—	4,209
Payment on notes	—	—	—	—	—	—	—	—	46	46
Deferred compensation related to stock options and restricted stock	—	—	—	—	1,317	(1,317)	—	—	—	—
Amortization of deferred compensation	—	—	—	—	—	860	—	—	—	860
Adjustment for change in Cimaron Communications Corporation's year end	—	—	—	—	—	—	—	(1,341)	—	(1,341)
Comprehensive income:										
Net income	—	—	—	—	—	—	—	17,133	—	17,133
Unrealized loss on short-term investments, net of tax benefit	—	—	—	—	—	—	(33)	—	—	(33)
Total comprehensive income	—	—	—	—	—	—	—	—	—	17,100
Balance, March 31, 1999	—	$—	26,612	$266	$102,525	$(2,123)	$(33)	$ 21,514	$(455)	$121,694

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Fiscal Year Ended March 31, 1997	1998	1999
Operating Activities			
Net income	$ 6,316	$ 15,216	$ 17,133
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,185	5,174	7,045
Write-offs of inventories	452	600	180
Amortization of deferred compensation	—	127	860
Loss on disposals of property	—	—	221
Adjustment for change in Cimaron year end	—	—	(1,341)
Changes in operating assets and liabilities:			
Accounts receivables	1,058	(3,761)	(7,096)
Inventories	(1,146)	(1,255)	(1,808)
Other current assets	(116)	(1,607)	(678)
Accounts payable	(1,553)	2,787	(84)
Accrued payroll and other accrued liabilities	1,562	2,418	8,704
Deferred income taxes	—	(3,882)	(691)
Deferred revenue	(25)	1,067	(434)
Net cash provided by operating activities	11,733	16,884	22,011
Investing Activities			
Proceeds from sales and maturities of short-term investments	7,944	66,547	187,787
Purchase of short-term investments	(11,512)	(119,874)	(199,394)
Repayments (advances) on notes receivable from officers and employees	(608)	(366)	262
Purchase of property, equipment and other assets	(2,855)	(11,342)	(16,490)
Net cash used for investing activities	(7,031)	(65,035)	(27,835)
Financing Activities			
Proceeds from issuance of Common Stock, net	42	52,413	9,062
Repurchase of Common Stock	(145)	—	—
Repurchase of Convertible Preferred Stock	—	(3,877)	—
Payments on notes receivable from stockholders	18	12	46
Payments on capital lease obligations	(2,824)	(2,691)	(2,110)
Payments on long-term debt	(582)	(37)	(792)
Proceeds from equipment financed under capital leases	—	—	2,342
Issuance of long-term debt	—	3,303	4,346
Net cash provided by (used for) financing activities	(3,491)	49,123	12,894
Net increase in cash and cash equivalents	1,211	972	7,070
Cash and cash equivalents at beginning of year	4,277	5,488	6,460
Cash and cash equivalents at end of year	$ 5,488	$ 6,460	$ 13,530
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 656	$ 380	$ 542
Cash paid for income taxes	$ 770	$ 3,251	$ 4,274

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

Capital lease obligations of approximately $1.2 million and $282,000 were incurred during fiscal years 1997 and 1998, respectively. During the fiscal year 1998, notes were received for the exercise of stock options totaling $455,000.

See accompanying notes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS

The Company designs, develops, manufactures and markets high-performance, high-bandwidth silicon solutions for the world's communications infrastructure.

BASIS OF PRESENTATION

The consolidated financial statements include all the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. On March 17, 1999, the Company acquired Cimaron Communications Corporation ("Cimaron") in a business combination accounted for as a pooling-of-interests. Cimaron, which also designs and develops high-bandwidth silicon solutions for communications equipment manufacturers, became a wholly owned subsidiary of the Company through the exchange of approximately three million shares of the Company's Common Stock for all the outstanding stock and stock options of Cimaron. The accompanying financial statements for fiscal 1999 have been prepared as if the companies had been combined for the full year and, as more fully discussed in Note 2, the prior year financial statements did not require restatement as a result of this business combination.

CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Cash and cash equivalents consist of money market type funds and highly liquid debt instruments with original maturities of three months or less at the date of acquisition. Short-term investments consist of United States Treasury notes, obligations of U.S. government agencies and corporate bonds. The Company maintains its excess cash in financial institutions with strong credit ratings and has not experienced any significant losses on its investments.

The Company classifies its short-term investments as "Available-for-Sale" and records such assets at the estimated fair value with unrealized gains and losses excluded from earnings and reported, net of tax, in comprehensive income. The basis for computing realized gains or losses is by specific identification.

The following is a summary of available-for-sale securities (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
At March 31, 1999:				
U.S. treasury securities and obligations of U.S. government agencies	$21,740	$22	$72	$21,690
U.S. corporate debt securities	51,321	16	17	51,320
	$73,061	$38	$89	$73,010
At March 31, 1998:				
U.S. treasury securities and obligations of U.S. government agencies				$15,908
U.S. corporate debt securities				45,528
				$61,436

The estimated fair value of the short-term investments was equal to the amortized cost at March 31, 1998.

Available-for-sale securities by contractual maturity are as follows (in thousands):

	March 31, 1999
Due in one year or less	$48,918
Due after one year through two years	16,775
Greater than two years	7,317
	$73,010

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash equivalents, short-term investments, accounts receivable, accounts payable, accrued liabilities and long-term debt approximates fair value.

CONCENTRATION OF CREDIT RISK

The Company believes that the concentration of credit risk in its trade receivables is mitigated by the Company's credit evaluation process, relatively short collection terms and dispersion of its customer base. The Company generally does not require collateral and has not experienced significant losses on trade receivables from any particular customer or geographic region for any period presented.

The Company invests its excess cash in debt instruments of the U.S. Treasury, governmental agencies and corporations with strong credit ratings. The Company has established guidelines relative to diversification and maturities that attempt to maintain safety and liquidity. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates. The Company has not experienced any significant losses on its cash equivalents or short-term investments.

USE OF ESTIMATES

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosures made in the accompanying notes to the financial statements. These estimates include assessing the collectability of accounts receivable, the use and recoverability of inventory, estimates to complete engineering contracts, costs of future product returns under warranty and provisions for contingencies expected to be incurred. Actual results could differ from those estimates.

INVENTORIES

Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market. The Company's inventory valuation process is done on a part-by-part basis. Lower of cost or market adjustments, specifically identified on a part-by-part basis, reduce the carrying value of the related inventory and take into consideration reductions in sales prices, excess inventory levels and obsolete inventory. Once established, these adjustments are considered permanent and are not reversed until the related inventory is sold or disposed.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost and depreciated over the estimated useful lives of the assets (3 to 7 years) using the straight line method. Leasehold improvements are stated at cost and amortized over the useful life of the asset. Property and equipment under capital leases are recorded at the net present value of the minimum lease payments and are amortized over the useful life of the assets. Leased assets purchased at the expiration of the lease term are capitalized at acquisition cost.

IMPAIRMENT OF LONG-LIVED ASSETS

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of," the Company records impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. SFAS No. 121 also addresses the accounting for long-lived assets that are expected to be disposed of. Through March 31, 1999, the Company has not experienced any such impairments.

ADVERTISING COST

Advertising costs are expensed as incurred.

REVENUES

Revenues related to product sales are generally recognized when the products are shipped to the customer. Recognition of revenues and the related cost of revenues on shipments to distributors that are subject to terms of sale allowing for price protection and right of return on products unsold by the distributor are deferred until the distributor's ability to return the products or its rights to price protection lapse or have been limited. Revenues on engineering design contracts are recognized using the percentage-of-completion method based on actual cost incurred to date compared to total estimated costs of the project. Deferred revenue represents both the margin on shipments of products to distributors that will be recognized when the distributors ship the products to their customers or the right of return has lapsed and billings in excess of estimated earnings on uncompleted engineering design contracts.

WARRANTY RESERVES

Estimated expenses for warranty obligations are accrued as revenue is recognized. Reserve estimates are adjusted periodically to reflect actual experience.

RESEARCH AND DEVELOPMENT

Research and development costs are expensed as incurred. Substantially all research and development expenses are related to new product development, designing significant improvements to existing products and new process development.

STOCK-BASED COMPENSATION

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and related interpretations in accounting for its employee and director stock options because the alternative fair value accounting provided for under SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), requires the use of option valuation models that were not developed for use in valuing employee and director stock options. Under SFAS 123, compensation cost is determined using the fair value of stock-based compensation determined as of the grant date and is recognized over the periods in which the related services are rendered. The statement also permits companies to elect to continue using the current implicit value accounting method specified in APB 25 to account for stock-based compensation and disclose in the footnotes to the financial statements the pro forma effect of using the fair value method for its stock-based compensation.

RECLASSIFICATION

Certain prior period amounts have been reclassified to conform to the current period presentation.

EARNINGS PER SHARE

Earnings per share are computed in accordance with SFAS No. 128 "Earnings Per Share." Basic earnings per share are computed using the weighted-average number of common shares outstanding during each period. Diluted earnings per share includes the dilutive effect of common shares potentially issuable upon the exercise of stock options.

The reconciliation of shares used to calculate basic and diluted earnings per share consists of the following (in thousands):

	March 31,		
	1997	1998	1999
Shares used in basic earnings per share computations—			
weighted-average common shares outstanding	5,006	10,594	24,514
Effect of assumed conversion of Preferred Stock from date of issuance	12,828	7,434	—
Net effect of dilutive common share equivalents based on treasury stock method	73	2,266	2,916
Shares used in diluted earnings per share computations	17,907	20,294	27,430

NEW ACCOUNTING STANDARDS

Effective April 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income" and SFAS No. 131, "Segment Information." SFAS No. 130 requires that all components of comprehensive income, including net income, be reported in the financial statements in the period in which they are recognized. Comprehensive income is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. Net income and other comprehensive income, including unrealized gains and losses on investments, are reported, net of their related tax effect, to arrive at comprehensive income. SFAS No. 131 amends the requirements for public enterprises to report financial and descriptive information about its reportable operating segments. Operating segments, as defined in SFAS No. 131, are components of an enterprise for which separate financial information is available and is evaluated regularly by the Company in deciding how to allocate resources and in assessing performance. The financial information is required to be reported on the basis that is used internally for evaluating the segment performance. The Company believes it operates in one business and operating segment.

2. ACQUISITIONS

On March 17, 1999, AMCC acquired all of the outstanding Common Stock and Common Stock equivalents of Cimaron in exchange for approximately three million shares of the Company's Common Stock. The acquisition has been accounted for using the pooling-of-interests method of accounting. Prior to the combination, Cimaron, which was incorporated on January 2, 1998, had a fiscal year end of December 31, 1998. In recording the business combination, Cimaron's results of operations for the fiscal year ended December 31, 1998 were combined with AMCC's for the fiscal year ended March 31, 1999. Cimaron's net sales and net loss for the three-month period ended March 31, 1999 were $110,000 and $(1,341,000), respectively. In accordance with Accounting Principles Board Opinion No. 16 ("APB No. 16"), Cimaron's results of operations and cash flows for the three-month period ended March 31, 1999 have been added directly to the retained earnings and cash flows of AMCC and excluded from reported fiscal 1999 results of operations.

The combined Company realized a charge in the fourth quarter of fiscal 1999 of approximately $3.1 million related to the estimated costs of the merger. Approximately $700,000 of these total merger costs were incurred by Cimaron and are not reflected in the Company's results of operations for the fourth quarter of fiscal 1999 because they are included in Cimaron's results of operations, which are reflected as a charge directly to retained earnings.

In April 1998, the Company acquired Ten Mountains Design, which designs and develops high-bandwidth analog devices for communications equipment suppliers and optical module manufacturers. The purchase price was approximately $330,000 and resulted in recoding intangible assets of approximately $280,000, which will be amortized over three years. The financial statements include the results of operation for Ten Mountains Design from the date of acquisition.

3. CERTAIN FINANCIAL STATEMENT INFORMATION

	March 31, 1998	March 31, 1999
Inventories (in thousands):		
Finished goods	$1,817	$ 975
Work in process	5,161	7,688
Raw materials	1,207	1,150
	$8,185	$9,813

	March 31, 1998	March 31, 1999
Property and equipment (in thousands):		
Machinery and equipment	$25,983	$34,413
Leasehold improvements	7,476	7,641
Computers, office furniture and equipment	13,219	16,654
	46,678	58,708
Less accumulated depreciation and amortization	(29,460)	(35,580)
	$17,218	$23,128

	March 31, 1998	March 31, 1999
Other accrued liabilities (in thousands):		
Income taxes payable	$ 888	$3,329
Accrued merger-related costs	—	1,893
Other	1,456	1,985
	$2,344	$7,207

The cost and accumulated amortization of machinery and equipment under capital leases at March 31, 1999 were approximately $10.5 million and $8.5 million, respectively ($10.0 million and $7.2 million, at March 31, 1998, respectively). Amortization of assets held under capital leases is included with depreciation expense.

During the years ended March 31, 1997, 1998 and 1999, the Company earned interest income of $627,000, $1,252,000 and $3,992,000, respectively, and incurred interest expense of $656,000, $381,000 and $542,000, respectively.

4. LONG-TERM DEBT

During fiscal year 1999, the Company had an equipment line of credit with a bank, which expired on March 31, 1999. Borrowings of $7.1 million under the line of credit were converted into term notes, with payments totaling $141,000, payable over 53 to 60 months, and interest rates between 6.44% to 7.42%. At March 31, 1999, $6.3 million was outstanding on the notes.

On July 31, 1998, the Company entered into an equipment line of credit with a bank. The line of credit provided for borrowings of up to $1,000,000 at the bank's prime rate plus 0.5% (8.25% at March 31, 1999). The Company paid off the outstanding balance of $565,000 including accrued interest on April 1, 1999.

Principal maturities of the notes payable at March 31, 1999 are as follows:

Year Ended March 31,	(in thousands)
2000	$1,862
2001	1,394
2002	1,495
2003	1,603
2004	503
	$6,857

5. STOCKHOLDERS' EQUITY

STOCK OFFERINGS

In December 1997, the Company completed an initial public offering of its Common Stock. The offering raised net proceeds to the Company of approximately $25.1 million. In March 1998, the Company completed a secondary public offering of Common Stock in which the Company raised net proceeds of approximately $26.9 million.

CONVERTIBLE PREFERRED STOCK

On April 24, 1997, the Board authorized the Company to repurchase up to $4.0 million of Convertible Preferred Stock, with priority given to the holders of Convertible Preferred Stock that submitted bids for the sale of their shares of Convertible Preferred Stock at the lowest price per share. On June 20, 1997, the Company repurchased an aggregate of 172,300 shares of Convertible Preferred Stock for approximately $3.9 million at prices between $1.20 and $2.61 per share on an as converted to common stock basis. In connection with the initial public offering, all then-outstanding shares of Convertible Preferred Stock immediately converted into 10,717,317 shares of Common Stock.

PREFERRED STOCK

In November 1997, the Certificate of Incorporation was amended to allow the issuance of up to 2,000,000 shares of Preferred Stock in one or more series and to fix the rights, preferences, privileges and restriction thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series of the designation of such series, without further vote or action by the stockholders.

STOCK OPTIONS AND OTHER STOCK AWARDS

The Company's 1992 Stock Option Plan ("1992 Plan") provides for the granting of incentive and nonqualified stock options to employees. Generally, options are granted at prices at least equal to fair value of the Company's Common Stock on the date of grant. In addition, certain officers, employees and directors have been granted nonqualified stock options. The Company's 1982 Employee Incentive Stock Option Plan expired in 1992.

In connection with the Company's acquisition of Cimaron, the Company assumed options and other stock awards granted under Cimaron's 1998 Stock Incentive Plan ("The Incentive Plan") covering 657,153 shares of Cimaron stock at a weighted-average exercise price of $0.23 per share. The terms of the plan provides for the granting of options, restricted stock or other stock-based awards ("stock awards") to employees, officers, directors, consultants and advisors. Generally, the stock awards are granted at prices at least equal to the fair value of the Company's Common Stock on the date of grant. A total of 1,016,365 shares of Common Stock were authorized for issuance under the Incentive Plan. At March 31, 1999, 564,358 restricted shares had been issued under the Incentive Plan.

Options and other stock awards under the plans expire not more than ten years from the date of grant and are either immediately exercisable after the date of grant, subject to certain repurchase rights by the Company, at the Company's option, until such ownership rights have vested, or exercisable upon vesting. Vesting generally occurs over four to five years. At March 31, 1998 and 1999, 651,842 and 869,626 shares of Common Stock were subject to repurchase, respectively.

Pursuant to an employment agreement entered into during January 1996 between the Company and an executive, the Company granted an option to purchase 800,000 shares of the Company's Common Stock at $0.53 per share under the 1992 Stock Option Plan. The option vests ratably over four years. In the event the Company is acquired, the agreement stipulates that under certain circumstances the executive is eligible for certain additional compensation. These options as well as 66,667 additional options issued in April 1997 were exercised in July 1997. The exercise was paid for with various notes, which aggregated $455,000 and bear interest at rates between 5.98% and 6.54%, and are due at the earlier of February 12, 2000 ($420,000) and April 9, 2001 ($35,000) or the termination of employment.

Pro forma information regarding net income and net income per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that statement. The fair value of the options was estimated at the date of grant using the minimum value method for grants prior to the initial public offering and the Black Scholes method for grants after the initial public offering using the following weighted-average assumptions for fiscal year 1997 and 1998: risk free interest rate of 6%; an expected option life of four years; no annual dividends; and an expected volatility of .92 (used only for the options valued using the Black Scholes method.). For options granted in fiscal year 1999, the fair value of the options was estimated at the date of the grant using the following assumptions: risk free interest rate of 6%; an expected life of four to five years; no annual dividends; and an expected volatility of .89.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized ratably to expenses over the vesting period of such options. The effects of applying SFAS No. 123 for pro forma disclosure purposes are not likely to be representative of the effects on pro forma net income in future years because they do not take into consideration pro forma compensation expenses related to grants made prior to 1996.

The Company's pro forma information follows:

(in thousands)	Year Ended March 31, 1997	1998	1999
Net income:			
As reported	$6,316	$15,216	$17,133
Pro forma	$6,225	$14,856	$13,202
Earnings per share:			
As reported:			
Basic	$ 1.26	$ 1.44	$ 0.70
Diluted	$ 0.35	$ 0.75	$ 0.62
Pro forma:			
Basic	$ 1.24	$ 1.40	$ 0.54
Diluted	$ 0.35	$ 0.73	$ 0.48
Weighted fair value of options granted during the year	$ 0.15	$ 6.84	$ 21.07

A summary of the Company's stock option activity, including those issued outside of the plans, and related information are as follows:

	March 31, 1997		1998		1999	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	1,690,160	$0.51	2,842,293	$0.51	2,682,451	$ 6.87
Granted	1,457,285	0.53	1,798,873	10.00	1,520,141	18.46
Exercised	(92,680)	0.45	(1,701,620)	0.51	(1,314,581)	1.19
Forfeited	(212,472)	0.53	(257,095)	0.64	(214,667)	8.32
Outstanding at end of year	2,842,293	$0.51	2,682,451	$6.87	2,673,344	$16.13
Vested at end of year	851,764	$0.51	635,050	$0.60	678,615	$ 7.25

The following is a further breakdown of the options outstanding at March 31, 1999:

Range of Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
$ 0.13–$ 0.98	1,043,660	7.60	$ 0.52
$ 3.90–$ 8.25	201,926	8.51	$ 7.69
$ 8.19–$23.63	665,774	9.03	$22.57
$23.88–$43.63	761,984	9.60	$34.10
$ 0.13–$43.63	2,673,344	8.60	$16.13

From April 1, 1997 through September 30, 1997, the Company recorded deferred compensation expense for the difference between the exercise price and the fair value for financial statement presentation purposes of the Company's Common Stock, as determined by the Board of Directors, for all options granted in the period. This deferred compensation aggregates to $599,000, which is being amortized ratably over the four-year vesting period of the related options. Additionally, during the year ended March 31, 1999, the Company recorded deferred compensation related to restricted stock and stock options granted to founders and employees of Cimaron of $2.5 million. Such amount is being amortized over the related vesting period, generally five years. Amortization of deferred compensation during fiscal years 1998 and 1999 was $127,000 and $860,000, respectively.

EMPLOYEE STOCK PURCHASE PLANS

The Company's 1997 Employee Stock Purchase Plan (the "1997 Purchase Plan") was adopted by the Board of Directors on October 6, 1997 and was subsequently approved by the stockholders. A total of 400,000 shares of Common Stock are reserved for issuance under the 1997 Purchase Plan. At March 31, 1999, 393,874 shares had been issued under the 1997 Purchase Plan.

The Company's 1998 Employee Stock Purchase Plan (the "1998 Purchase Plan") was approved by the stockholders on August 4, 1998. A total of 400,000 shares are authorized for issuance under the 1998 Purchase Plan. At March 31, 1999, 23,308 shares had been issued under the 1998 Purchase Plan.

Under the terms of the plans, purchases are made semiannually on January 31 and July 31 and the purchase price of the Common Stock is equal to 85% of the fair market value of the Common Stock on the first or last day of the offering period, whichever is lower.

1997 DIRECTORS' STOCK OPTION PLAN

The Company's 1997 Directors' Stock Option Plan (the "Directors' Plan") was adopted by the Board of Directors on October 6, 1997 and was subsequently approved by the stockholders. A total of 200,000 shares of Common Stock are reserved for issuance under the Directors' Plan. The Directors' Plan provides for the grant of nonstatutory options to nonemployee directors of the Company. At March 31, 1999, no shares had been issued under the Directors' Plan.

COMMON SHARES RESERVED FOR FUTURE ISSUANCE

At March 31, 1999, the Company has the following shares of Common Stock reserved for issuance upon the exercise of equity instruments:

Stock Options:	
Issued and outstanding	2,673,344
Authorized for future grants	1,724,785
Stock purchase plans	382,818
	4,780,947

6. INCOME TAXES

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

	Year Ended March 31, 1997	1998	1999
Current:			
Federal	$380	$3,606	$ 9,860
State	279	682	1,064
Total current	659	4,288	10,924
Deferred:			
Federal	—	(3,558)	(362)
State	—	(324)	(329)
Total deferred	—	(3,882)	(691)
	$659	$ 406	$10,233

The provision for income taxes reconciles to the amount computed by applying the federal statutory rate (35%) to income before income taxes as follows (in thousands):

	Year Ended March 31, 1997		1998		1999	
	$	%	$	%	$	%
Tax at federal statutory rate	$2,441	35%	$5,468	35%	$ 9,578	35%
Increase (decrease) in valuation allowance of deferred tax assets	(2,343)	(34)	(5,094)	(32)	—	—
Foreign sales corporation	—	—	(309)	(2)	(387)	(1)
Federal alternative minimum tax	380	5	—	—	—	—
State taxes, net of federal benefit	181	3	233	1	478	1
Federal tax credits	—	—	(281)	(2)	(1,216)	(5)
Merger costs and deferred compensation	—	—	—	—	763	3
Other	—	—	389	3	1,017	4
	$ 659	9%	$ 406	3%	$10,233	37%

Significant components of the Company's deferred tax assets and liabilities for federal and state income taxes as of March 31, 1998 and 1999 are as shown on the following page. At March 31, 1998, the effective tax rate is computed based on a full reduction of the valuation allowance and realization of the deferred tax asset.

(in thousands)	March 31, 1998	1999
Deferred tax assets:		
Inventory write downs and other reserves	$1,814	$1,850
Net operating loss carryforwards	—	1,719
Capitalization of inventory and research and development costs	242	313
Research and development credit carryforwards	898	298
Depreciation and amortization	242	—
State income taxes	239	47
Other credit carryforwards	447	447
Total deferred tax assets	3,882	4,674
Deferred tax liabilities:		
Depreciation and amortization	—	101
Net deferred tax assets	$3,882	$4,573

At March 31, 1999, the Company has federal alternative minimum tax and federal and state research and development tax credit carryforwards of approximately $447,000, $195,000 and $103,000, respectively, which will begin to expire in 2007 unless previously utilized. The Company also has federal and state net operating loss carryforwards of approximately $4,043,000, which will expire in 2018 and 2003, respectively, unless previously utilized. These net operating loss carryforwards are the result of the operating losses generated by the Company's subsidiary, Cimaron, prior to the acquisition. Under Internal Revenue Code Section 382 and 383, the Company's use of its tax loss carryforwards and tax credit carryforwards could be limited in the event of certain cumulative changes in the Company's stock ownership.

7. COMMITMENTS

In July 1998, the Company acquired the right to purchase, in the form of a ground lease, a parcel of land as a site for a potential new wafer fabrication facility. This parcel of land is located approximately one quarter mile from the Company's headquarters in San Diego, California. The Company has made payments of $1.0 million related to this transaction. In December 1998, the Company exercised its right to acquire the land, which commits the Company to take title to the land by May 31, 1999 upon payment of an additional $3.7 million.

The Company leases certain of its facilities under long-term operating leases, which expire at various dates through 2011. The lease agreements frequently include renewal provisions, which require the Company to pay taxes, insurance and maintenance costs, and contain escalation clauses based upon increases in the Consumer Price Index or defined rent increases. The Company also leases certain software under noncancellable operating leases expiring through 2002.

Annual future minimum lease payments, including machinery and equipment under capital leases as of March 31, 1999 are as follows:

Year Ending March 31,	Operating Leases	Capital Leases
2000	$ 3,473	$1,332
2001	3,713	907
2002	4,581	765
2003	4,052	478
2004	1,998	835
Thereafter	6,155	—
Total minimum lease payments	$23,972	4,317
Less amount representing interest		679
Present value of remaining minimum capital lease payments (including current portion of $ 1,075)		$3,638

Rent expense (including short-term leases and net of sublease income) for the years ended March 31, 1997, 1998 and 1999 was $1.2 million, $1.2 million and $1.4 million, respectively. Sublease income was $208,000, $119,000 and $0 for the years ended March 31, 1997, 1998 and 1999, respectively.

8. RELATED PARTY TRANSACTIONS

At March 31, 1998 and 1999, the Company had outstanding notes receivables from officer(s) of $1,065,000, and $915,000, respectively. These notes bear interest at the rates of 4.62% to 5.76% and are due at the earlier of one to three years from the date of the note or termination of employment with the Company.

9. EMPLOYEE RETIREMENT PLAN

Effective January 1, 1986, the Company established a 401(k) defined contribution retirement plan (the "Retirement Plan") covering all full-time employees with greater than three months of service. The Retirement Plan provides for voluntary employee contributions from 1% to 20% of annual compensation, subject to a maximum limit allowed by Internal Revenue Service guidelines. The Company may contribute such amounts as determined by the Board of Directors. Employer contributions vest to participants at a rate of 20% per year of service, provided that after five years of service all past and subsequent employer contributions are 100% vested. The contributions charged to operations totaled $318,000, $412,000 and $573,000 for the years ended March 31, 1997, 1998 and 1999, respectively.

10. SIGNIFICANT CUSTOMER AND GEOGRAPHIC INFORMATION

During the years ended March 31, 1997, 1998 and 1999, 20%, 21% and 20%, respectively, of net revenues were from Nortel. In 1998 and 1999, Insight Electronics, the Company's domestic distributor, accounted for 11% and 13% of net revenues. Additionally, in 1999, Raytheon Systems Co. accounted for 16% of net revenues. No other customer accounted for more than 10% of revenues in any period.

Net revenues by geographic region were as follows (in thousands):

	Year Ended March 31,		
	1997	1998	1999
Net revenues:			
United States	$34,424	$44,448	$ 61,760
Canada	10,943	14,204	18,011
Europe and Israel	8,216	13,773	18,136
Asia	3,885	4,193	7,093
	$57,468	$76,618	$105,000

11. CONTINGENCIES

The Company is party to various claims and legal actions arising in the normal course of business, including notification of possible infringement on the intellectual property rights of third parties. In addition, since 1993 the Company has been named as a potentially responsible party ("PRP") along with a large number of other companies that used Omega Chemical Corporation ("Omega") in Whittier, California to handle and dispose of certain hazardous waste material. The Company is a member of a large group of PRPs that has agreed to fund certain remediation efforts at the Omega site for which the Company has accrued approximately $50,000. Although the ultimate outcome of these matters is not presently determinable, management believes that the resolution of all such pending matters, net of amounts accrued, will not have a material adverse affect on the Company's financial position or liquidity; however, there can be no assurance that the ultimate resolution of these matters will not have a material impact on the Company's results of operations in any period.

On July 31, 1998, the Lemelson Medical, Education & Research Foundation Limited Partnership (the "Lemelson Partnership") filed a lawsuit in the U.S. District Court for the District of Arizona against 26 companies, including the Company, engaged in the manufacture and/or sale of IC products. On November 25, 1998, the Company was served a summons pursuant to this lawsuit. The complaint alleges infringement by the defendants of certain U.S. patents (the "Lemelson Patents") held by the Lemelson Partnership relating to certain semiconductor manufacturing processes. The complaint seeks, among other things, injunctive relief and unspecified treble damages. Previously, the Lemelson Partnership has offered the Company a license under the Lemelson patents. The Company is monitoring this matter and, although the ultimate outcome of this matter is not currently determinable, the Company believes, based in part on the licensing terms previously offered by the Lemelson Partnership, that the resolution of this matter will not have a material adverse effect on the Company's financial position or liquidity; however, there can be no assurance that the ultimate resolution of this matter will not have a material adverse effect on the Company's results of operations in any period.

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

THE BOARD OF DIRECTORS

APPLIED MICRO CIRCUITS CORPORATION

We have audited the accompanying consolidated balance sheets of Applied Micro Circuits Corporation as of March 31, 1998 and 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 consolidated financial position of Applied Micro Circuits Corporation at March 31, 1998 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 1999, in conformity with generally accepted accounting principles.

Ernst + Young LLP

San Diego, California

April 21, 1999

CORPORATE HEADQUARTERS

APPLIED MICRO CIRCUITS CORPORATION (AMCC)
6290 Sequence Drive
San Diego, CA 92121-4358
Phone: (858) 450-9333
Fax: (858) 450-9885

INVESTOR INFORMATION

Exchange: Nasdaq Stock Market
Symbol: AMCC

INQUIRIES CONCERNING THE COMPANY

Applied Micro Circuits Corporation welcomes inquiries from its stockholders and other interested investors. For additional copies of this report, the Form 10-K or other information, please contact:

AMCC
Debra Hart
Investor Relations
6290 Sequence Drive
San Diego, CA 92121-4358
Phone: (858) 535-4217
Fax: (858) 535-6800

You are invited to visit our home page on the World Wide Web at www.amcc.com for more information. You'll find background on the Company and its products, financial data and other information that may be of interest to investors.

TRANSFER AGENT AND REGISTRAR

Questions regarding misplaced stock certificates, change of address or the consolidation of accounts should be addressed to the Company's transfer agent:

Harris Trust Company of California
Shareholder Communications Team
P.O. Box A3504
Chicago, IL 60690-3504
Phone: (312) 588-4143
www.harrisbank.com
webshare@harrisbank.com

ANNUAL MEETING

The AMCC annual meeting of stockholders will be held at 10:00 a.m. on Tuesday, August 3, 1999, at AMCC's facility located at 6290 Sequence Drive, San Diego, CA.

INDEPENDENT AUDITORS

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501 W. Broadway, Suite 1100
San Diego, CA 92101

GENERAL COUNSEL

Venture Law Group
A Professional Corporation
2800 Sand Hill Road
Menlo Park, CA 94025

BOARD OF DIRECTORS

David M. Rickey
President and Chief Executive Officer
Applied Micro Circuits Corporation

Roger A. Smullen, Sr.(2)
Chairman of the Board

William K. Bowes, Jr.(2)
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Ghest Associates Consulting

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Asset Management Company

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Former Chairman, President and Chief Executive Officer
Micro Linear Corporation

Harvey P. White
Chairman, President and Chief Executive Officer
Leap Wireless International

(1) Member of the Compensation Committee
(2) Member of the Audit Committee

OFFICERS

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President and Chief Executive Officer

Roger A. Smullen, Sr.
Chairman of the Board

William E. Bendush
Vice President, Finance and Administration
Chief Financial Officer
Secretary

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Vice President, Operations

Brent E. Little
Vice President, Marketing

Gary D. Martin
Vice President and Chief Technical Officer,
Cimaron Communications Corporation

Ramakrishna P. Sudireddy
Vice President, Cimaron Communications Corporation

Thomas L. Tullie
Vice President, Sales

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