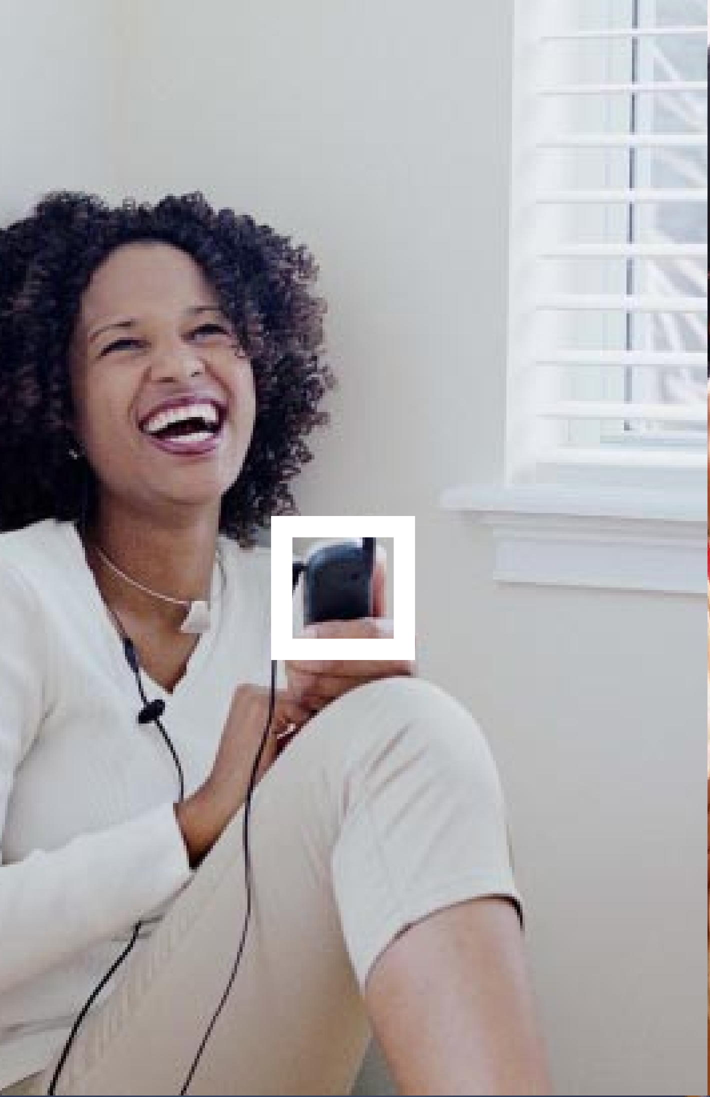
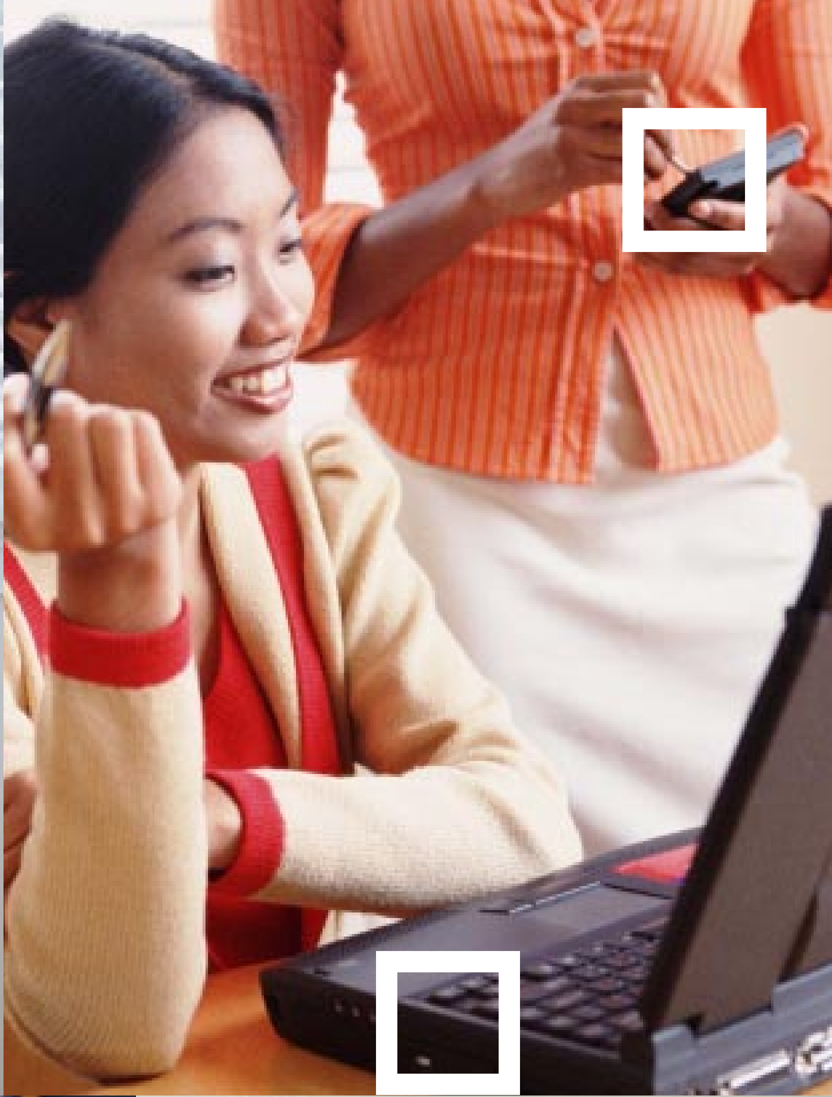
strategy for a wireless world

2003 ANNUAL REPORT

RF MICRO DEVICES



OUR MISSION: TO BE THE PREMIER SUPPLIER OF LOW-COST, HIGH-PERFORMANCE INTEGRATED CIRCUITS AND SOLUTIONS — ENABLING WIRELESS CONNECTIVITY.

financial highlights

Fiscal Year Ended March 31, (In thousands, except per share data)	***2003***	***2002***	***2001***	***2000***	***1999***
Total revenue	**$ 507,819**	$ 369,308	$ 335,364	$ 288,960	$ 152,852
Income (loss) from operations	**$ 11,757**	$ (18,205)	$ 46,671	$ 73,194	$ 23,785
Net (loss) income	**$ (9,335)**	$ (20,584)	$ 34,974	$ 50,094	$ 19,561
Diluted net (loss) income per share	**$ (0.05)**	$ (0.12)	$ 0.20	$ 0.29	$ 0.13
Current assets	**$ 392,621**	$ 455,970	$ 492,314	$ 169,849	$ 199,718
Total assets	**$ 932,825**	$ 729,000	$ 720,931	$ 344,612	$ 275,758
Current liabilities	**$ 77,540**	$ 34,918	$ 28,999	$ 27,540	$ 31,800
Total liabilities	**$ 375,425**	$ 339,315	$ 344,433	$ 41,459	$ 44,852
Shareholders' equity	**$ 557,400**	$ 389,685	$ 376,498	$ 303,153	$ 230,906

ON THE FOLLOWING PAGES, WE SHARE WITH YOU SOME EXAMPLES OF MAJOR ACHIEVEMENTS IN FISCAL 2003 DRIVEN BY OUR GROWTH STRATEGY AND OUR FOCUS ON ENABLING WIRELESS CONNECTIVITY. AS WE STRENGTHEN OUR LEADERSHIP POSITION AND EXPAND OUR TOTAL ADDRESSABLE MARKET, WE ARE INCREASINGLY CONFIDENT ABOUT OUR FUTURE AND OUR ABILITY TO EXECUTE ON OUR STRATEGIC MISSION.

DEAR FELLOW SHAREHOLDERS,

At the start of fiscal 2003, we outlined a growth strategy built on four goals: strengthen our leadership position in our core market of power amplifiers (PAs); increase sales of our non-PA components in handsets; diversify our customer base; and grow our business in new high-growth markets.

Our ability to execute against our fiscal 2003 strategic growth plan is best demonstrated by our revenue performance. Sales rose approximately 38% in fiscal 2003 to $507.8 million, compared to $369.3 million in fiscal 2002. Our ability to offer our customers highly integrated multi-chip PA modules was key to our success. Also, our sales to wireless local area network (WLAN) customers grew approximately 740% to $31.1 million, further establishing our Company as a major supplier to wireless markets.

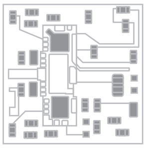
While we are pleased with our growth, we recognize the added significance of executing on our initiatives to improve gross margins and profitability. We are focused on multiple initiatives to improve profitability, including the conversion from four- to six-inch wafer manufacturing, the introduction of next-generation PA modules, the addition of Jazz Semiconductor as a supplier of low cost silicon and ongoing yield improvements in our module products.

We are optimistic about our future and believe our competitive position is stronger than ever. In our core market of handsets, not only are we actively taking share, we are benefiting from market share consolidation as customers streamline their supply chains. Additionally, new markets such as WLAN, cellular transceivers, *Bluetooth*®, GPS, satellite radio and wireless infrastructure represent significant opportunities for future growth. We have reason to expect continued market share gains, growth in new markets and cost reductions, all of which give us confidence in achieving revenue growth and improving profitability in fiscal 2004.

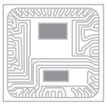
In closing, I would like to say that it's been an honor to work with Dave Norbury, who retired as Chief Executive Officer in January of 2003. Under Dave's leadership, the Company became a world-class component supplier to the wireless industry. Our entire organization is committed to executing on the strategic growth plan that Dave, myself and our management team have created.

I'd like to thank our talented employees, customers, suppliers and shareholders for your continued support. We look forward to sharing our success with you in fiscal 2004 and beyond.

BOB BRUGGEWORTH
PRESIDENT AND CHIEF EXECUTIVE OFFICER



CURRENT 10X10mm PA MODULE WITH INTEGRATED POWER CONTROL



NEXT-GENERATION 7X7mm LEAD FRAME PA MODULE WITH INTEGRATED POWER CONTROL

Innovative new power amplifier module products developed by RFMD provide customers with smaller solutions that feature higher levels of integration and improved functionality.

we focused

RF MICRO DEVICES HAS BECOME A GLOBAL LEADER IN WIRELESS MARKETS

During fiscal 2003, we executed on our strategic growth plan and strengthened our leadership position in wireless markets by focusing on core competencies. Our core competencies include our expertise designing and developing radio frequency integrated circuits (RFICs), our growing portfolio of semiconductor process technologies, our ability to attract, serve and leverage our blue-chip customer base and our high-volume, low-cost semiconductor manufacturing capacity.

Our RF design expertise is the cornerstone of our leadership position. We develop RFICs for low-power wireless equipment, such as cellular handsets and wireless local area networks (WLANs). Because our design expertise spans numerous technologies, we can provide customers the most appropriate process and device technologies for each product, according to the best possible combination of cost and performance. We call this delivery strategy *Optimum Technology Matching*®, or OTM. Our OTM strategy enables us to address a wide range of RF applications across multiple wireless markets.

Since our founding, RF Micro Devices has focused on maintaining strong customer relationships. Today, our customers include virtually all the major manufacturers of the world's cell phones, the major manufacturers of most WLAN devices and leaders from among other high-growth markets. The Company continues to invest in these relationships through the introduction of innovative new products and through additional product, design and process improvements. We remain focused on offering next-generation process technologies, such as our advanced GaAs HBT, indium gallium phosphide, pHEMT, and gallium nitride. Also, we continue to invest in our industry-leading manufacturing capacity to ensure our customers' product delivery requirements are met on time and cost-competitively. By strengthening the supply chain and shortening our design and manufacturing cycle times, we help our customers accelerate their products to market.

RF Micro Devices has become a global leader in wireless markets through continued investment in these and other core competencies. By leveraging these competitive strengths, we seek to become the premier supplier of low-cost, high-performance integrated circuits and solutions – enabling wireless connectivity.

we diversified

MOVING BEYOND THE HANDSET INTO NEW HIGH-GROWTH MARKETS

During fiscal 2003, we strengthened our leadership position in PAs by offering customers highly integrated multi-chip PA modules, which incorporate more functionality than previous generations of single-chip PA microwave monolithic integrated circuits, or MMICs. PA modules represented approximately 59% of total revenue in fiscal 2003, versus approximately 43% of total revenue in fiscal 2002. Notably, during the fiscal 2004 first quarter, RF Micro Devices became the fastest company to ship its 200 millionth PA module. While we are pleased with our PA market share gains, we are extremely focused on improving module profitability, which diluted corporate average gross margins as module products increased as a percentage of total revenues. We have numerous initiatives in place to improve PA module profitability and overall Company profitability in fiscal 2004.

Beyond the PA, RF Micro Devices grew its dollar content in handsets by supplying small signal devices, such as low noise amplifiers and driver amplifiers, which are the active components that receive and transmit wireless signals. In fiscal 2003, sales of small signal devices for handsets increased approximately 28% from $45.6 million to $58.5 million. Sales of small signal devices, combined with PA market share gains, helped us diversify our customer base. We added a second ten-percent customer and decreased the percentage of sales attributable to our largest customer. In fiscal 2004 we anticipate adding a third ten-percent customer. Importantly, a growing segment of the handset market – original design manufacturers, or ODMs – continued to grow as a percentage of revenue, representing approximately 12% of fiscal 2003 revenue, versus 9% of revenue in fiscal 2002.

Our market and product diversification efforts are best illustrated by our success in WLAN. Fiscal 2003 WLAN revenues grew approximately 740% to $31.1 million, versus $3.7 million in fiscal 2002. Through our ongoing diversification efforts, additional markets such as cellular transceivers, *Bluetooth*®, GPS, satellite radio and wireless infrastructure represent incremental opportunities to expand our total addressable market in the future.

RF MICRO DEVICES IS THE WORLD'S LEADING SUPPLIER OF POWER AMPLIFIERS FOR HANDSETS

we maintained

We built our reputation making power amplifiers for wireless handsets. PAs are the most critical component in the radio section of handsets and amplify the handset's signal through its antenna back to the base station. We are the world's leading supplier of PAs for handsets, and we have taken significant steps to maintain our leadership position.

During fiscal 2003, we continued to focus significant R&D resources on developing innovative, new PA module products. In February 2003, we introduced the RF3133, the smallest available quad-band PA module with integrated power control circuitry. The RF3133 extends the **PowerStar**™ family of PA modules, which feature our patent-pending method of power control circuitry based on collector control.

Collector control is currently the industry's leading integrated method of power control for GSM PAs. We have experienced tremendous success with our **PowerStar** products, selling more than 10 million units to date. The tri-band RF3110 was our first **PowerStar** PA module and is the best-selling standard product in our PA module portfolio. In addition to simplifying phone design and manufacturing, **PowerStar** products significantly reduce customers' engineering time and resources in product test, in some cases by more than 50 percent, thereby accelerating time-to-market and reducing overall cost.

Our efforts to maintain our leadership position in fiscal 2003 also included the development of new process technologies. We led the commercialization of GaAs HBT in 1996, and we continue to optimize our GaAs HBT process to address the higher data rate requirements of next-generation air interface standards, such as EDGE, CDMA2000 1x EV-DO and WCDMA. We are also continuing to identify and commercialize other promising semiconductor technologies, such as Gallium Nitride, or GaN, which we expect will prove to be a disruptive technology in the wireless infrastructure market.

Our new dual-band, tri-mode two-chip 802.11a/b/g solution enables high-performance 54 Mbps operation and seamless interoperability in both 2.4 GHz and 5 GHz bands. The depth of our WLAN product offerings positions RFMD to be a major participant in this market and further grow the Company in fiscal 2004.

we changed

OUR PRODUCT OFFERINGS CONTINUALLY EVOLVE TO ANTICIPATE WIRELESS MARKETS OF TOMORROW

RF Micro Devices has evolved from a supplier of discrete components for handsets into a supplier of low-cost, high-performance integrated circuits and solutions for multiple wireless markets. During fiscal 2003, we won market share in PAs, increased our sales of small signal devices, added a new ten-percent customer and penetrated the high-growth WLAN market. In doing so, we decreased our exposure to any one market, product or customer and positioned the Company for further growth in fiscal 2004.

Within our largest market of power amplifiers, we significantly broadened our exposure to the world's major cell phone makers. In WLAN, we made important strides with new customers by leveraging our local sales presence in Taiwan, as well as our RF design expertise and specialization in high-volume, low-cost manufacturing. Our first-generation 802.11b transceiver was our most successful WLAN product in fiscal 2003. It drove our WLAN revenue and became the world's second-best selling transceiver in 802.11b – the highest volume segment of the WLAN market.

We believe our second-generation 802.11b transceiver, introduced in March 2003, will drive additional growth for the Company in fiscal 2004. The second-generation product incorporates a synthesizer our customers had formerly sourced from a competitor, which helps support higher average selling prices and improves margins versus those of the previous solution.

Also, initial customer reaction to our two-chip 802.11a/b/g multi-mode solution, introduced in April 2003, has been very favorable, and we anticipate continued growth in WLAN driven by the breadth of our product offerings.

Our product offerings will continue to evolve in fiscal 2004 with the availability of our POLARIS™ TOTAL RADIO™ family of products. POLARIS performs the major functions of the radio section of the handset and provides handset makers the benefits of reduced component count, flexible baseband interfaces and lower cost of implementation. Importantly, our POLARIS transceiver complements leading baseband products and can be combined to offer handset makers complete best-of-breed solutions. We believe our number one market share position for GSM/GPRS/EDGE power amplifiers will enable us to quickly gain customer acceptance with our POLARIS products.

we grew

OUR STRATEGY FOR A WIRELESS WORLD

When RF Micro Devices was founded twelve years ago, we had minimal revenues, fewer than 15 employees and one domestic office. Today, the Company has annualized revenues of more than $500 million and approximately 1,800 employees located in 22 offices and 13 countries worldwide. Our customers now include virtually every major handset manufacturer, and our power amplifier market share of approximately 40%, as we exited fiscal 2003, means we are the most trusted merchant supplier of this key component to the handset market.

Helped by sales of our **PowerStar** products, we have become the leading supplier of PAs for the GSM air interface standard, which accounts for approximately two-thirds of the world's cell phones. Our leadership in GSM handsets gives us exceptional leverage as we expand our product portfolio of GSM components with the production ramp of our POLARIS TOTAL RADIO solution.

RF Micro Devices grew in fiscal 2003 on the strength of our achievements in high-growth markets. We built upon our leadership position in our largest market of power amplifiers for wireless handsets, and we leveraged core strengths in new markets, such as WLAN.

While doing so, we focused on numerous initiatives to enhance profitability and maximize value to our shareholders. We believe our margin improvement initiatives on PAs will benefit profitability as we enter fiscal 2004, and the production ramp of POLARIS and increased sales of our WLAN products will drive revenue growth and margin expansion later this fiscal year.

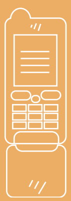
Our markets are evolving rapidly and we are growing with them through continued investment in enhanced capabilities and expanded product offerings. We are assembling a unique capability to provide high-performance integrated circuits and solutions to the world's wireless markets, and we will continue to focus on growth through continued diversification into new high-growth markets and by increasing our content in cellular handsets.

FACTORY OPERATIONS
Beijing, PRC
Greensboro, NC

SALES AND CUSTOMER SUPPORT CENTERS
Oulu, Finland
Reading, England
San Diego, CA
Seoul, South Korea
Taiwan, ROC

SALES OFFICES
Tokyo, Japan
Malmo, Sweden
Munich, Germany

DESIGN CENTERS
Boulder, CO
Boston, MA
Calgary, Canada
Cedar Rapids, IA
Chandler, AZ
Charlotte, NC
Irvine, CA
Leuven, Belgium
Moscow, Russia
Pandrup, Denmark
San Jose, CA
Scotts Valley, CA



RF Micro Devices is the premier provider of power amplifiers for cellular handsets.

RF Micro Devices is the second largest provider of transceivers for WLAN 802.11b devices.

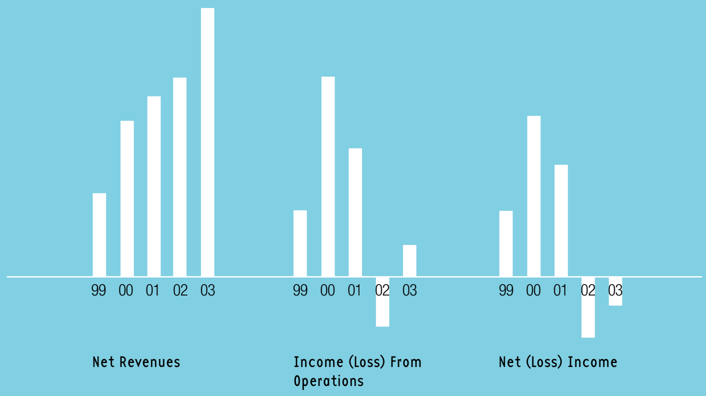
Future "convergence" devices are expected to combine cellular and WLAN, as well as other wireless technologies, such as *Bluetooth*® and GPS.

38% INCREASE IN REVENUES

40% APPROXIMATE MARKET SHARE FOR PAs AT 03/03

59% MODULES AS PERCENT OF TOTAL REVENUES

740% GROWTH IN WLAN REVENUES



financial contents

The following selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements and Notes thereto included in this Annual Report. The consolidated statement of operations data for the years ended March 31, 2003, 2002 and 2001, and the consolidated balance sheet data as of March 31, 2003 and March 31, 2002, are derived from, and are qualified by reference to, the Consolidated Financial Statements and Notes thereto included in this Annual Report. The statement of operations data for the years ended March 31, 2000 and 1999, and the balance sheet data as of March 31, 2001, March 31, 2000 and March 31, 1999, are derived from our historical financial statements, which are not included in this Annual Report.

Year Ended March 31,	*2003*	*2002*	*2001*	*2000*	*1999*
(In thousands, except per share data)					
Consolidated Statement of Operations Data:					
Revenue:					
Product sales	**$ 506,805**	$ 367,387	$ 333,203	$ 288,085	$ 152,114
Engineering revenue	**1,014**	1,921	2,161	875	738
Total revenue	**507,819**	369,308	335,364	288,960	152,852
Costs and expenses:					
Cost of goods sold	**325,168**	248,965	181,801	152,746	99,325
Research and development	**101,736**	74,445	60,340	33,338	14,239
Marketing and selling	**36,833**	28,993	28,450	20,109	10,716
General and administrative	**18,364**	14,224	13,495	9,573	4,787
Other operating expenses	**13,961**	14,085	4,607	–	–
Impairment of long-lived assets	–	6,801	–	–	–
Total costs and expenses	**496,062**[1]	387,513	288,693	215,766	129,067
Income (loss) from operations	**11,757**	(18,205)	46,671	73,194	23,785
Interest expense	**(24,433)**	(17,195)	(9,346)	(1,400)	(1,244)
Other income, net	**3,591**	7,987	15,084	5,274	1,911
(Loss) income before income taxes	**(9,085)**	(27,413)	52,409	77,068	24,452
Income tax (expense) benefit	**(250)**	6,829	(17,435)	(26,974)	(4,891)
Net (loss) income	**$ (9,335)**	$ (20,584)	$ 34,974	$ 50,094	$ 19,561
Net (loss) income per share:					
Basic	**$ (0.05)**	$ (0.12)	$ 0.22	$ 0.32	$ 0.14
Diluted	**$ (0.05)**	$ (0.12)	$ 0.20	$ 0.29	$ 0.13
Shares used in per share calculation:					
Basic	**172,706**	165,827	161,820	158,728	136,944
Diluted	**172,706**	165,827	173,213	171,668	147,472
Consolidated Balance Sheet Data:					
Cash and cash equivalents	**$ 164,422**	$ 157,648	$ 266,076	$ 28,956	$ 147,545
Short-term investments	**92,187**	186,526	75,162	33,755	–
Working capital	**315,081**	421,052	463,315	142,309	167,918
Total assets	**932,825**[1]	729,000	720,931	344,612	275,758
Long-term debt and capital lease obligations, less current portion	**296,476**	294,417	295,963	8,203	12,587
Shareholders' equity	**557,400**[1]	389,685	376,498	303,153	230,906

[1] Fiscal 2003 includes the effects of the merger with Resonext Communication, Inc. See Note 7 of Consolidated Financial Statements.

All statements, trend analysis and other information contained in the following discussion relative to markets for our products and trends in revenue, gross margins and anticipated expense levels, as well as other statements including words such as "expect," "anticipate," "intend," "plan," "believe" and "estimate," and variants of such words and similar expressions, identify forward-looking statements.

Our business is subject to numerous risks and uncertainties, including the following:

- Variability in operating results;
- The rate of growth and development of wireless markets;
- The risks associated with the operation of our molecular beam epitaxy facility, the operation of our test and tape and reel facilities, both foreign and domestic, and the operation of our wafer fabrication facilities;
- Our ability to manage rapid growth and to attract and retain skilled personnel;
- Variability in production yields, raw material costs and availability;
- Dependence on a limited number of customers;
- Dependence on our gallium arsenide (GaAs) heterojunction bipolar transistor (HBT) products;
- Ability to reduce costs and improve margins by converting our second four-inch GaAs HBT wafer fabrication facility into a six-inch facility, improving yields, implementing innovative technologies and increasing capacity utilization;
- Dependence on third parties;
- Our ability to bring new products to market in response to market shifts and use technological innovation to lead the industry in time-to-market for our products;
- Currency fluctuations, tariffs, trade barriers, taxes and export license requirements associated with our foreign operations; and
- Our ability to integrate acquired companies, including the risk that we may not realize expected synergies from our business combinations.

These risks and other uncertainties, which are described in more detail in the section entitled "Business – Additional Factors That May Affect Future Results" in our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission, could cause the actual results and developments to be materially different from those expressed or implied in the forward-looking statements.

OVERVIEW

We design, develop, manufacture and market proprietary radio frequency integrated circuits (RFICs) for wireless communications products and applications. As such, we operate as a single business segment. We are a leading supplier of power amplifiers, one of the most critical radio frequency (RF) components in cellular phones. We are also the leading GaAs HBT manufacturer, which offers distinct advantages over other technologies for the manufacture of current and next generation power amplifiers. Our products are included primarily in cellular phones, base stations, wireless local area networks, cable television modems, and global positioning systems (GPS). We derive revenue from the sale of standard and custom-designed products. We offer a broad array of products including amplifiers, mixers, modulators/demodulators and single chip transmitters, receivers and transceivers that represent a substantial majority of the RFICs required in wireless subscriber equipment. We design products for manufacture using multiple semiconductor process technologies: aluminum gallium arsenide (AlGaAs) (also referred to as gallium arsenide (GaAs)) heterojunction bipolar transistor (HBT), silicon bipolar transistor, silicon complementary metal-oxide-semiconductor (CMOS), silicon BiCMOS (integration of bi-polar transistors and CMOS), silicon germanium (SiGe) BiCMOS, GaAs metal-semiconductor field-effect transistor (MESFET), and indium gallium phosphide (InGaP) HBT. We are also actively developing and evaluating gallium nitride (GaN) and GaAs pseudomorphic high electron mobility transistor (pHEMT) processes. Handset manufacturers try to maximize tradeoffs between performance and cost. Our approach to using multiple semiconductor process technologies allows us to offer customers products that fulfill their performance, cost and time-to-market requirements. We call this approach to business *Optimum Technology Matching®*.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management believes the following critical accounting polices, among others, affect its more significant judgments and estimates used in the preparation of our consolidated financial statements.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We make estimates for the allowance for doubtful accounts, inventory reserves, warranty reserves, income tax valuation, investment impairments, impairments of goodwill, long-lived assets and other financial statement amounts on a regular basis and make adjustments based on historical experiences and existing and expected future conditions. Actual results could differ from those estimates.

REVENUE RECOGNITION

Revenue from product sales is recognized when the title, and risk and rewards of product ownership, is transferred. We also enter into engineering agreements with certain customers relating to the development of customer-specific applications. Revenue is recognized for engineering contracts as it is earned.

Our products generally carry 12 to 27 month warranties against defects depending on the specific type of product. We provide for estimated warranty costs in the period the related sales are made based on historical experience as well as assessment of overall risk.

IMPAIRMENT OF LONG-LIVED ASSETS, INVESTMENTS, INTANGIBLE ASSETS AND GOODWILL

We review the carrying values of all long-lived assets, including goodwill and identifiable intangibles, whenever events or changes in circumstances indicate that such carrying values may not be recoverable, as required by Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142) and Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). As required by SFAS 142, we review goodwill and intangible assets with indefinite lives for impairment at least annually. Unforeseen events and changes in circumstances and market conditions and material differences in the value of intangible assets due to changes in estimates of future cash flows could negatively affect the fair value of our assets and result in an impairment charge. In connection with the November 1999 expansion of the related party technology license agreement with Northrop Grumman Space Technology sector (NGST), formerly known as TRW Space & Electronics, Inc. (TRW), two warrants to purchase our common stock were granted to TRW. The value of the warrants increased the gross carrying amount of the technology license. One of the warrants was exercisable only if we achieved certain milestones. The required milestones were not met, and therefore the related party technology license carrying amount was reduced by the valuation of the forfeited warrant as of March 31, 2002. As required by SFAS 144, we reviewed long-lived assets based on changes in circumstances that indicate their carrying amounts may not be recoverable due to the extent and manner we use the assets. During fiscal 2002, we recognized an impairment charge totaling $6.8 million related to assets to be held and used, as well as to assets to be disposed of, which is presented on the consolidated statements of operations as "Impairment of long-lived assets."

We review our investments for impairment and make appropriate reductions in the carrying value when an other-than- temporary decline is evident in accordance with Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock" and Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments In Debt and Equity Securities" (SFAS 115). During fiscal 2003 and fiscal 2002, we recorded a $1.3 million and a $3.6 million charge, respectively, for the impairment of a $5.0 million investment in the equity of a privately held company. The impairment charge represented management's best estimate of an other-than-temporary decline in value.

In making impairment determinations for long-lived assets, investments, and intangible assets, we utilize certain assumptions, including, but not limited to: 1) estimations and quoted market prices of the fair market value of the assets, 2) estimations of future cash flows expected to be generated by these assets, which are based on additional assumptions such as asset utilization, length of service the asset will be used in the Company's operations and estimated salvage values and 3) independent valuation analysis of newly acquired intangible assets. In order to evaluate goodwill, we use certain assumptions in analyzing existing goodwill, including, but not limited to, two generally accepted valuation methodologies: the income approach – discounted cash flows, and the market approach – enterprise value and guideline company analysis. Newly acquired goodwill determinations are based on independent appraisals.

INVENTORIES

Inventories are stated at the lower of cost or market determined using the average cost method. Our business is subject to the risk of technological and design changes. We evaluate inventory levels quarterly against sales forecasts on a part-by-part basis and evaluate our overall inventory risk. Reserves are adjusted to reflect inventory values in excess of forecasted sales as well as overall inventory risk assessed by management. In the event we sell inventory that had been covered by a specific inventory reserve, the sale is recorded at the actual selling price and the related cost of goods sold at the full inventory cost. Inventory deemed obsolete is required by our policy to be carried for a period not to exceed one year so that customers may be notified and find a suitable replacement. Once the one-year period is complete, the obsolete inventory will be disposed of and the inventory value and related reserve will be written off.

During fiscal 2003, our inventory reserves decreased $7.2 million. This decrease primarily resulted from disposal of obsolete inventory resulting in a corresponding write-off of such assets and their related reserve. Gross inventories increased $11.9 million or 19% in fiscal 2003 compared to fiscal 2002. The increase is attributable to our revenue growth and the higher cost of more complex, highly integrated multi-chip module power amplifiers. Revenue in fiscal 2003 increased 38% and unit sales volume increased 56%. We believe our continued focus on supply chain management through the implementation of new planning strategies, efforts of an inventory management team and utilization of a leading material planning system as discussed below has enabled us to demonstrate the effective management of inventory through reduced inventory reserve risk.

During fiscal 2002, our inventory reserves increased as customers shifted demand from microwave monolithic integrated circuits (MMICs) to more complex, highly integrated multi-chip module power amplifiers. Industry volatility and lower forecasts for handset sales during the first part of fiscal 2002 increased our overall inventory risk associated with predictability of future sales and management's reliance on sales forecasts. These factors resulted in a $15.3 million reserve adjustment in the first quarter of fiscal 2002. Of this reserve, 90% was attributable to standard products. In order to improve on inventory level issues, we have utilized a leading material requirement planning system that we purchased in 1999 and fully implemented in February 2001, implemented planning strategies for each product and maintained an inventory management team. During fiscal 2000 and the first two quarters of fiscal 2001 gross inventories grew consistently with sales. As sales began to decline in the last two quarters of fiscal 2001, inventory levels began to grow disproportionately with sales. Our response to industry trends and corresponding implementation of new production planning strategies did not impact gross inventory levels until the second quarter of fiscal 2002. During fiscal 2002, our gross inventories decreased $27.0 million, which we believe demonstrates the effectiveness of our focus on supply chain management through the implementation of new planning strategies and an inventory management team.

STOCK-BASED COMPENSATION

We account for employee stock options and employee restricted stock in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). Under APB 25, no compensation expense is recognized for stock options or restricted stock issued to employees with exercise prices or share prices at or above quoted market value. For stock options or restricted shares granted at exercise prices below quoted market value, we record deferred compensation expense for the difference between the price of the shares and the market value. Deferred compensation expense is amortized ratably over the vesting period of the related options or shares of restricted stock.

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123) provides an alternative to APB 25 in accounting for stock-based compensation issued to employees. SFAS 123 provides for a fair value based method of accounting for employee stock options and similar equity instruments. However, companies that continue to account for stock-based compensation arrangements under APB 25 are required by SFAS 123 to disclose the pro forma effect on net (loss) income and net (loss) income per share as if the fair value based method prescribed by SFAS 123 had been applied. We continue to account for stock-based compensation using the provisions of APB 25 and present the pro forma information required by SFAS 123 as amended by Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" (SFAS 148).

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In April 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements Nos. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (SFAS 145). We adopted SFAS 145 for financial statements issued on or after May 15, 2002. Adoption of SFAS 145 did not have a significant impact on our consolidated financial position, results of operations or cash flows.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146). SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002, and we will adopt SFAS 146 prospectively. The adoption of SFAS 146 did not have a significant impact on our consolidated financial position, results of operations or cash flows.

In October 2002, the FASB issued Statement of Financial Accounting Standards No. 147, "Acquisitions of Certain Financial Institutions – An Amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9" (SFAS 147). SFAS 147 is an industry-specific standard and is not applicable to us; therefore, SFAS 147 did not have an impact on our consolidated financial position, results of operations or cash flows.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" (SFAS 148). SFAS 148 amends Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), to provide alternative methods of transition to SFAS 123's fair value method of accounting for stock-based employee compensation. SFAS 148 also amends the disclosure provisions in SFAS 123 and APB Opinion No. 28, "Interim Financial Reporting", to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. We will adopt the interim financial reporting requirements of SFAS 148 for interim periods beginning after March 31, 2003 and we have adopted the annual financial reporting requirements in fiscal 2003. The adoption of SFAS 148 did not have a significant impact on our consolidated financial position, results of operations or cash flows.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). FIN 44 is the interpretation of Accounting Research Bulletin No. 51 "Consolidated Financial Statements," which addresses consolidation by business enterprises of variable interest entities. FIN 46 is effective immediately for all variable interest entities created after January 31, 2003 and effective for fiscal years beginning after June 15, 2003 for variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. We will adopt FIN 46 in fiscal 2004. The adoption of FIN 46 is not expected to have a significant impact on our consolidated financial position, results of operations or cash flows.

RESULTS OF OPERATIONS

The following table shows our consolidated statement of operations data expressed as a percentage of total revenue for the periods indicated:

For the Fiscal Years Ended March 31,	*2003*	*2002*	*2001*
Total revenue	**100%**	100%	100%
Operating costs and expenses:			
Cost of goods sold	**64.0**	67.4	54.2
Research and development	**20.0**	20.2	18.0
Marketing and selling	**7.3**	7.9	8.5
General and administrative	**3.6**	3.8	4.0
Other operating expenses	**2.8**	3.8	1.4
Impairment of long-lived assets	**–**	1.8	–
Total operating costs and expenses	**97.7**	104.9	86.1
Income (loss) from operations	**2.3**	(4.9)	13.9
Interest expense	**(4.8)**	(4.7)	(2.8)
Interest income	**1.1**	3.3	4.5
Other expense, net	**(0.4)**	(1.1)	–
(Loss) income before income taxes	**(1.8)**	(7.4)	15.6
Income tax benefit (expense)	**–**	1.8	(5.2)
Net (loss) income	**(1.8)**	(5.6)	10.4

REVENUE

FISCAL 2003

Revenue in fiscal 2003 was $507.8 million, an increase of 38% over revenue of $369.3 million in fiscal 2002. The growth resulted primarily from four areas of strategic focus in fiscal 2003: an increase in our power amplifier market share; an increase in the number of components we sold in a typical wireless handset; diversification of our wireless handset customer base; and our expansion into new product markets.

- Our revenue from handsets in fiscal 2003 increased 33% compared to fiscal 2002. Estimated handsets production in calendar year 2002 increased approximately 14% compared to calendar year 2001. Thus, the growth in the overall wireless handsets produced, coupled with our growth in market share both contributed to our increased revenues.
- We increased the number of components we sold in a typical handset by increasing sales of our small signal devices by 28% in fiscal 2003 over fiscal 2002.
- Our dependence on Nokia Mobile Phones Ltd. (Nokia) declined in fiscal 2003. Sales to Nokia as a percentage of revenues declined from 65% in fiscal 2002 to 45% in fiscal 2003. In addition, during fiscal 2003 we increased our sales to other prominent existing customers in the handset industry, including Motorola, Inc. (Motorola), which accounted for 14% of our revenue in fiscal 2003 compared to 5% in fiscal 2002. We also increased original design manufacturer (ODM) revenues by 135% in fiscal 2003 compared to 2002.
- In fiscal 2003, our wireless local area network (WLAN) revenue increased to $31.1 million from $3.7 million in fiscal 2002. Our WLAN product revenue was concentrated in products addressing the 802.11b standard and represented 6% of total revenues in fiscal 2003, up from 1% of total revenues in fiscal 2002. In December 2002, we completed the merger with Resonext Communications, Inc. (Resonext), a privately held

company providing highly integrated CMOS WLAN solutions for 802.11a and multi-band (802.11a/b/g) platforms. We believe this merger positions us to expand WLAN product offerings more rapidly in the 802.11a and 802.11a/b/g markets.

Although we increased the number of units sold in fiscal 2003 by 56%, our average selling price declined approximately 12% for MMICs and approximately 17% for multi-chip module power amplifiers compared to fiscal 2002. Our markets remain highly competitive and we continue to experience downward pressure on average selling prices of our products.

International shipments were $405.7 million and accounted for 80% of revenue in fiscal 2003 as compared to $262.3 million, or 71% of revenue in the prior year. Shipments to Asia totaled $274.9 million, or 54% of revenue, in fiscal 2003 and $189.2 million, or 51% of revenue, in fiscal 2002. The establishment of our sales and customer support centers in Taipei, Taiwan and Seoul, South Korea contributed to our increased sales in the Asian markets.

FISCAL 2002

Revenue in fiscal 2002 was $369.3 million, an increase of 10% over revenue of $335.4 million in fiscal 2001 due primarily to the continued growth in our GaAs HBT revenue. GaAs HBT sales were $341.9 million, an increase of 10% over fiscal 2001 sales of $309.9 million, due to continued expansion of our customer base as well as growth in sales to several prominent existing customers in the handset industry. Sales to Nokia, our largest customer, represented 65% of total revenue in fiscal 2002, an increase from 53% in fiscal 2001. No other customer generated sales greater than 10% of total revenue in fiscal 2002. Our WLAN and Global System for Mobile Communications (GSM) revenue also increased in fiscal 2002 compared to fiscal 2001 by 30% and 35%, representing 1% and 39% of total revenue, respectively. WLAN revenue grew late in fiscal 2002 as our products transitioned from prototype sales to commercial sales for personal computer applications with contract manufacturers. GSM revenue increased as a result of our focused development of modules, which were incorporated into handsets. Although we increased the number of units sold in fiscal 2002 by 15%, our average selling price declined approximately 20% for MMICs and 9% for multi-chip module power amplifiers compared to fiscal 2001. International shipments in fiscal 2002 were $262.3 million and accounted for 71% of total revenue, as compared to $174.4 million, or 52% of total revenue, in fiscal 2001.

GROSS PROFIT

FISCAL 2003

Gross profit margins in fiscal 2003 increased to 36% of revenue compared to 33% of revenue in fiscal 2002. The increase in gross profit was primarily attributable to increased unit volume and capacity utilization, favorable production yields and the absence of an adjustment to inventory reserves compared to an adjustment of $15.3 million recorded in fiscal 2002 due to the anticipated reduction in revenue from sales of MMICs that we experienced in fiscal 2003. These positive factors were offset in part by a predicted shift in product mix from MMICs to more complex, highly integrated multi-chip module power amplifiers, which was driven by customer demand. Because multi-chip module power amplifiers currently contain higher substrate and assembly costs and components that are purchased by us from third parties, our overall manufactured content as a percentage of total cost in a module is lower than for a MMIC, which results in lower margins for modules than MMICs. In addition, production yields for modules can be lower than for MMICs due to the more complex, highly integrated nature of modules. Module-based products provide customers with a lower cost, are more reliable, have a smaller footprint with the same functionality and allow customers to decrease their time-to-market for products. Module sales for fiscal 2003 represented 59% of our revenue compared to 43% for fiscal 2002. We expect this trend will continue as our customers increasingly seek highly integrated circuits and solutions from their suppliers rather than discrete components.

We have historically experienced significant fluctuations in gross profit margins and, consequently, our operating results, and we expect such fluctuations to continue. Our test and tape and reel facility in Beijing, China transitioned from other operating expenses to cost of goods sold during September 2002 once the facility was qualified for production and economic value was obtained. We expect continued downward pressure on margins due to a decline in average selling prices and the shift in product mix for both devices and air standards. Management believes this decline can be mitigated by continued cost reduction efforts including conversion of our second four-inch GaAs HBT wafer fabrication facility into a six-inch facility, utilizing our strategic relationship with Jazz to obtain a committed, lower-cost source of supply for silicon wafers, achieving higher levels of product integration, successfully implementing test yield and assembly improvement plans, lowering assembly costs and other supply chain savings, and increasing our capacity utilization.

FISCAL 2002

Gross profit margins in fiscal 2002 declined to 33% compared to 46% in fiscal 2001. The decrease was the result of increases in inventory reserves, continued declines in average selling prices, initial higher cost of goods sold associated with our module products and greater-than-normal yield losses associated with the ramp-up of new module products.

Our second wafer fabrication facility qualified for production in the third quarter of fiscal 2002. Accordingly, associated expenses transitioned from other operating expenses to cost of goods sold during that quarter.

Our fiscal 2002 gross profit reflects an abnormal decrease in the first quarter of fiscal 2002 resulting primarily from an increase in inventory reserves of $15.3 million combined with initial higher cost of goods sold associated with our module products and greater-than-normal yield losses associated with the steep ramp-up of the module business. As the year progressed, our margins improved due to improvements in production yields for new products, increased capacity utilization and cost reduction programs for module products. During the last three quarters of fiscal 2002, gross profit margins averaged 39%.

RESEARCH AND DEVELOPMENT

FISCAL 2003

Research and development expenses in fiscal 2003 were $101.7 million, an increase of 37% over fiscal 2002 expense of $74.4 million. This increase was primarily attributable to increased headcount and related personnel expenses including salaries, benefits and equipment. The merger with RF Nitro Communications, Inc. (RF Nitro), a privately held company with advanced materials and products in broadband wireless and wireline (fiber-optic) markets, and the acquisition of the global positioning system (GPS) development operation of International Business Machines Corp. (IBM) impacted research and development expenses for all of fiscal 2003 compared to five months in fiscal 2002. In addition, research and development expenses associated with Resonext, which merged with us in December 2002, represented 5% of the total research and development expenses for fiscal 2003. Research and development expenses excluding mergers and acquisitions increased 21% in fiscal 2003 over fiscal 2002. This increase represented a larger overall investment toward the development of our POLARIS™ TOTAL RADIO™ solution, a multi-band chipset that performs the major functions of the radio section of the handset and provides handset makers with the benefits of reduced component count, flexible baseband interfaces and lower cost of implementation. In addition, this increase reflects additional investments we made in development activities to extend our PowerStar™ family of power amplifiers modules.

We currently operate eleven off-site RFIC design centers in addition to our design engineering staff in Greensboro, North Carolina. Our off-site design centers are located in Scotts Valley, Irvine and San Jose, California; Cedar Rapids, Iowa; Boston, Massachusetts; Chandler, Arizona; Pandrup, Denmark; Calgary, Canada; Charlotte, North Carolina; Leuven, Belgium; and Moscow, Russia. The merger with Resonext in fiscal 2003 provided us with our San Jose, Moscow, and Leuven design centers. The Calgary and Irvine design centers were the result of our acquisition of IBM's GPS development operations, and our Charlotte design center resulted from the merger with RF Nitro in fiscal 2002. Research and development employees totaled 548 at March 31, 2003 compared to 429 at March 31, 2002.

We plan to continue to make substantial investments in research and development as evidenced by our new design center in Boulder, Colorado, which opened in April 2003, and we expect that such expenses will continue to increase in absolute dollar amounts in future periods.

FISCAL 2002

Research and development expenses in fiscal 2002 were $74.4 million, an increase of 23% over fiscal 2001 expense of $60.3 million. This increase was primarily attributable to increased headcount and related personnel expenses, including salaries, benefits and equipment. Spending on development wafers, mask sets and prototyping also increased as a result of continued module development and associated work on cost reductions and yield improvement techniques. During fiscal 2002 we merged with RF Nitro, a privately held company with advanced materials and products in broadband wireless and wireline (fiber-optic) markets, as an investment in process technology. Additionally, we acquired IBM's GPS development operation, which provides us with advanced GPS technology and access to IBM's chipscale packaging technology. These mergers and acquisitions contributed to increased headcount, and also to amortization expense as a result of an acquired technology license and covenants not to compete from key employees.

MARKETING AND SELLING

FISCAL 2003

Marketing and selling expenses in fiscal 2003 were $36.8 million, a 27% increase over expenses of $29.0 million in fiscal 2002. This increase was primarily attributable to increased headcount and related personnel expenses including salaries, benefits and equipment. The merger with RF Nitro and acquisition of IBM's GPS development operation impacted marketing and selling expenses for all of fiscal 2003 compared to five months in fiscal 2002. In addition marketing and selling expenses associated with Resonext, which merged with us in December 2002, represented 3% of the total marketing and selling expenses for fiscal 2003. Marketing and selling expenses excluding mergers and acquisitions increased 18% in fiscal 2003 over fiscal 2002. The increase was partially offset by decreased commission expense resulting from lower commission rates and shifts in revenue from third party commission-based accounts to in-house accounts. We expect that marketing and selling expenses will continue to increase in absolute dollar amounts in future periods.

We sell our products worldwide directly to customers as well as through a network of domestic and foreign sales representative firms. During fiscal 2003, we had sales and customer support centers in Greensboro, North Carolina; San Diego, California; Reading, England; Oulu, Finland; Seoul, South Korea; Taipei, Taiwan; and Beijing, China; and sales offices in Tokyo, Japan; Malmo, Sweden; and Munich, Germany. Marketing and selling employees totaled 198 at March 31, 2003 compared to 157 at March 31, 2002. We are focusing our efforts on building the staffing and capabilities of our existing sales infrastructure and believe our existing sales offices and customer support centers provide the geographic coverage necessary to address our product markets and customer base.

FISCAL 2002

Marketing and selling expenses in fiscal 2002 were $29.0 million, a 2% increase over expenses of $28.5 million in fiscal 2001. This increase was primarily the result of higher salaries, benefits and equipment as we conduct a greater portion of sales and marketing efforts in-house. The increase was partially offset by decreased commission expense resulting from lower commission rates and shifts in revenue from third party commission-based accounts to in-house accounts.

GENERAL AND ADMINISTRATIVE

FISCAL 2003

General and administrative expenses in fiscal 2003 were $18.4 million or 4% of revenue, a 29% absolute dollar increase compared to fiscal 2002 expenses of $14.2 million or 4% of revenue. General and administrative employees totaled 112 at March 31, 2003 compared to 90 at March 31, 2002. The year over year increase in absolute dollars was primarily due to increased headcount and related personnel expenses, including salaries, benefits, and equipment. Other increases in fiscal 2003 included recruiting expenses related to the appointment of two new board members, higher insurance premiums and bank charges for letters of credit expenses related to our expansion in Asian markets. We expect that general and administrative expenses will continue to increase in absolute dollar amounts in future periods.

FISCAL 2002

General and administrative expenses in fiscal 2002 were $14.2 million, a 5% increase compared to fiscal 2001 expenses of $13.5 million. This increase was attributable to increased salaries and benefits due to a higher headcount and higher professional fees associated with the merger with RF Nitro and acquisition of IBM's GPS development operations. General and administrative employees totaled 90 at March 31, 2002 compared to 84 at March 31, 2001.

OTHER OPERATING EXPENSES

FISCAL 2003

Other operating expenses were $14.0 million in fiscal 2003 compared to $14.1 million in fiscal 2002, a 1% decrease. Fiscal 2003 other operating expenses includes a $10.5 million charge for acquired in-process research and development in connection with the merger with Resonext, $2.1 million of depreciation expense for assets held and used related to the Agere facility, and $1.4 million of start-up costs associated with our test and tape and reel facility in Beijing, China. Fiscal 2002 other operating expenses included start-up cost of $13.5 million and $0.6 million attributable our second wafer fabrication facility in Greensboro, North Carolina and our test and tape and reel facility in Beijing, China, respectively. Fiscal 2003 included start-up costs associated with our test and tape and reel facility in Beijing, China through August 2002. The operating costs of the Beijing facility transitioned to cost of goods sold during the last month of the second fiscal quarter once the facility was qualified for production and economic value was obtained. These initial other operating costs have been expensed as incurred in accordance with the American Institute of Certified Public Accountants' Statement of Position 98-5, "Reporting on the Costs of Start-up Activities." The Resonext related acquired in-process research and development charge in fiscal 2003 was charged to expense in accordance with SFAS 141. SFAS 141 specifies that the amount assigned to acquired intangible assets to be used in a particular research and development project that have no alternative future use shall be charged to expense at the merger date. The in-process research and development projects were related to first and second generation products for 802.11a/b/g applications. The first generation product is a two-chip combination of a transceiver and baseband/media access controller (MAC) chip that support the 802.11 a/b/g protocols, and it was determined that the in-process research and development associated with this project had a fair value of $6.2 million. The second generation product is a two-chip combination of a transceiver and a baseband/MAC chip that supports the 802.11 a/b/g protocols and allows for variable frequencies and it was determined that the in-process research and development associated with this project had a fair value of $4.3 million. The value of the acquired in-process research and development was determined by estimating the costs to develop the purchased in-process research and development into a commercially viable product, estimating the resulting cash flows from the sale of the products resulting from the completion of the in-process research and development and discounting the net cash flows using a present value factor of 19%. The estimated cost to complete the projects is approximately $18.0 million with an estimated completion date in fiscal 2004.

FISCAL 2002

Other operating expenses were $14.1 million in fiscal 2002 compared to $4.6 million in fiscal 2001, a 206% increase. The increase was primarily attributable to the inclusion of start-up costs associated with our second wafer fabrication facility for three quarters in fiscal 2002 versus slightly more than one quarter in fiscal 2001. In addition, fiscal 2002 expense included costs associated with our test and tape and reel facility in Beijing, China. These costs have been expensed as incurred in accordance with the American Institute of Certified Public Accountants' Statement of Position 98-5, "Reporting on the Costs of Start-up Activities." The second wafer fabrication facility qualified for production in the third quarter of fiscal 2002. Accordingly, associated expenses transitioned from other operating expenses to cost of goods sold during that quarter.

INTEREST EXPENSE

FISCAL 2003

Interest expense in fiscal 2003 was $24.4 million compared to $17.2 million in fiscal 2002. The $7.2 million increase primarily resulted from the retirement of an interest rate swap arrangement for $7.8 million. In fiscal 2001, we entered into an interest rate swap cash flow hedge to reduce the impact of interest rate changes under our synthetic lease on our results of operations. We paid off the synthetic lease and acquired the underlying assets in the third quarter of fiscal 2003. As a result, our interest rate swap cash flow hedge was no longer eligible for hedge accounting and we elected to payoff the swap. Interest expense is expected to decrease in future periods as a result of the termination of the interest rate swap agreement.

FISCAL 2002

Interest expense in fiscal 2002 was $17.2 million compared to $9.3 million in fiscal 2001. The $7.9 million increase was due to greater amounts of interest paid on our convertible subordinated notes issued in August 2000 and expenses associated with the interest rate swap that we retired in fiscal 2003.

INTEREST INCOME

FISCAL 2003

Interest income in fiscal 2003 was $5.5 million compared to $12.2 million in fiscal 2002. Interest income decreased in fiscal 2003 due to lower prevailing interest rates driven by the Federal Reserve cuts to the federal funds rate and lower cash and investment balances.

FISCAL 2002

Interest income in fiscal 2002 was $12.2 million compared to $15.1 million in fiscal 2001. The decrease in interest income in fiscal 2002 was due to lower prevailing interest rates, driven by the Federal Reserve cuts to the federal funds rate.

INCOME TAX EXPENSE

FISCAL 2003

The effective combined domestic income tax rate for fiscal 2003 was 0%. Income tax expense of $0.25 million was incurred due to taxes on our foreign subsidiaries. This rate is lower than the 24.9% effective rate and $6.8 million income tax benefit in fiscal 2002 due primarily to the non-recognition of U.S. tax benefits on the domestic net operating losses and tax credits.

FISCAL 2002

The effective combined income tax rate for fiscal 2002 was 24.9% and resulted in an income tax benefit of $6.8 million. This rate is lower than the 33.2% effective rate and $17.4 million income tax provision in fiscal 2001 due primarily to the non-recognition of U.S. tax benefits on the domestic net operating losses.

LIQUIDITY AND CAPITAL RESOURCES

We have funded our operations to date through sales of equity and debt securities, bank borrowings, capital equipment leases and revenue from product sales. Through public and Rule 144A securities offerings, we have raised approximately $462.0 million, net of offering expenses. As of March 31, 2003, we had working capital of approximately $315.1 million, including $164.4 million in cash and cash equivalents, compared to working capital at March 31, 2002 of $421.1 million, including $157.6 million in cash and cash equivalents.

Operating activities in fiscal 2003 provided cash of $52.0 million, compared to $69.1 million provided in fiscal 2002. This decrease was primarily attributable to $11.9 million of cash used from changes in gross inventories in fiscal 2003 due to revenue growth and higher cost of more complex, highly integrated multi-chip module power amplifiers, compared to $27.0 million cash provided from changes in gross inventories in fiscal 2002. The cash provided in fiscal 2002 resulted from an increased focus on supply chain management through implementation of new planning strategies and an inventory management team that has decreased the need to build inventory to meet delivery schedules. The cash used in inventory in fiscal 2003 was partially offset by an increase provided by the change in net (loss) income of $11.2 million and adjustments to reconcile net (loss) income for non-cash operating items. The non-cash operating items increased cash provided from operating activities by $10.1 million year-over-year due to increases in depreciation, amortization, and acquired in-process research and development cost.

Cash used in investing activities in fiscal 2003 was $48.2 million, compared to $183.6 million used in fiscal 2002. Uses of cash in fiscal 2003 included purchases of securities available for sale of $261.2 million, purchases of capital equipment and leasehold improvements of $137.0 million and purchases of other investments totaling $30.0 million. Proceeds from maturities of securities provided cash of $354.8 million, partially offsetting the cash used. The year-over-year decrease is primarily attributable to the increase in proceeds from maturities of securities and net cash acquired of $25.3 million from the merger with Resonext.

In fiscal 2003, financing activities provided $2.9 million in cash, compared to $6.1 million of cash provided by financing activities in fiscal 2002. This decrease was primarily attributable to the decrease in proceeds from the exercise of stock options, warrants and employee stock purchases.

COMMITMENTS

The following table summarizes our contractual payment obligations and commitments (in thousands):

Payment Obligations by Fiscal Year Ending March 31,	*2004*	*2005*	*2006*	*2007*	*2008*	*Thereafter*	*Total*
Capital commitments	$ 13,822	$ –	$ –	$ –	$ –	$ –	$ 13,822
Capital leases	1,079	617	84	–	–	–	1,780
Operating leases	8,701	6,760	5,981	5,187	4,625	26,390	57,644
Convertible debt	11,250	11,250	305,625	–	–	–	328,125
Short-term note payable	30,000	–	–	–	–	–	30,000
Total	$ 64,852	$ 18,627	$ 311,690	$ 5,187	$ 4,625	$ 26,390	$ 431,371

CAPITAL COMMITMENTS

At March 31, 2003, we had long-term capital commitments of approximately $13.8 million, consisting of approximately $7.0 million for equipment related to the six-inch wafer project, $4.0 million related to equipment for our molecular beam epitaxy (MBE) facility, approximately $1.0 million for equipment in our second wafer fabrication facility, approximately $0.5 million for equipment in our test and tape and reel facility in Greensboro, North Carolina, and the remainder for general corporate requirements. We entered into a strategic alliance with Agere Systems Inc. (Agere) in May 2001, pursuant to which we agreed to invest approximately $58.0 million over two years to upgrade manufacturing clean room space and purchase semiconductor manufacturing equipment to be deployed within Agere's Orlando, Florida manufacturing facility, of which $16.4 million had been invested as of March 31, 2003. On January 23, 2002, Agere announced that it was seeking a buyer for its Orlando wafer fabrication operation. We currently do not intend to make any additional investments in equipment under this arrangement. We recently reopened discussions with Agere in order to resolve all remaining issues between the parties under the alliance documents, including the refund to us of amounts previously invested under our agreements with Agere. These discussions are at an early stage, and we currently cannot predict the outcome or financial or other effects of these discussions.

CAPITAL LEASES

We have 33 capital leases with five equipment financing companies under which we have financed the cost of capital equipment and leasehold improvements. We have financed an aggregate of $4.3 million of leased property under these facilities. Lease terms range from 12 months to 60 months with effective interest rates ranging from 7.0% to 11.0%. Total minimum future lease payments under these capital leases (excluding interest) as of March 31, 2003 were $1.8 million. In fiscal 2003, we recorded $3.2 million in lease amortization related to capital leases.

OPERATING LEASES

We lease our corporate headquarters facility, our first wafer fabrication facility, our MBE facility and other facilities through several third party operating leases. At March 31, 2003, we had minimum future lease payments of approximately $54.7 million related to facility operating leases and approximately $2.9 million related to equipment operating leases. In fiscal 2003, we recorded $21.0 million in rent expense under operating leases.

During fiscal 2001, we completed the sale-leaseback of our corporate headquarters building, generating $13.0 million in cash. The sale-leaseback is for a fifteen-year term with two ten-year options to renew.

SYNTHETIC LEASE

In August 1999, as modified effective December 1999 and August 2001, we entered into a $100.0 million synthetic lease with a financial institution. A synthetic lease is an asset-based financing structured to be treated as an operating lease for accounting purposes, but as a capital lease for tax purposes. On November 19, 2002, we terminated the remaining amount of the synthetic lease, and purchased the underlying assets for $84.5 million, with available cash on hand.

In fiscal 2001, we entered into an interest rate swap cash flow hedge to reduce the impact of interest rate changes under the lease on our results of operations. The carrying value of the derivative financial instrument was reflected in our balance sheet at its fair value and was included in other long-term liabilities and accumulated other comprehensive loss. After the termination of the synthetic lease, the swap was no longer eligible for hedge accounting and was removed from our balance sheet as of December 31, 2002. The retired amount of the interest rate swap was $7.8 million and was settled on November 21, 2002.

CONVERTIBLE DEBT

During fiscal 2001, we completed the private placement of $300.0 million aggregate principal amount of 3.75% convertible subordinated notes due 2005 calendar year, which included the exercise by the initial purchasers of the notes of their option to purchase an additional $50.0 million principal amount of the notes. The net proceeds from this offering were $291.3 million and have been and will be used for general corporate purposes, including capital expenditures and working capital. In addition, we may use a portion of the net proceeds to acquire or invest in complementary businesses, products or technologies if the opportunity arises. In fiscal 2003, we paid interest of $11.3 million on these notes.

SHORT-TERM NOTE PAYABLE

We entered into a strategic relationship with Jazz Semiconductor (Jazz) in October 2002. Under the arrangement, we obtained a committed, lower cost source of supply for wafers fabricated utilizing Jazz's silicon manufacturing processes. Pursuant to the relationship, we agreed to invest approximately $60.0 million in Jazz. We transferred $30.0 million in cash in fiscal 2003 and expect to pay the remaining $30.0 million in the third quarter of fiscal 2004. We currently have sufficient liquidity to pay the remaining $30.0 million.

FUTURE SOURCES OF FUNDING

Our future capital requirements may differ materially from those currently anticipated and will depend on many factors, including, but not limited to, market acceptance of our products, volume pricing concessions, capital improvements, technological advances and our relationships with suppliers and customers. We believe our cash requirements will be adequately met from normal operating results during fiscal 2004. A decrease in demand for our products, however, could result in operating cash flows being insufficient to meet our needs. If existing resources and cash from operations are not sufficient to meet our future requirements or if we perceive conditions to be favorable, we may seek additional debt or equity financing or additional credit facilities. We filed a $500.0 million shelf registration statement providing for the offering from time to time of debt securities, common stock, preferred stock, depository shares, warrants and subscription rights with the Securities and Exchange Commission on April 4, 2002. We do not, however, currently have any plans to issue any securities under this registration statement. We cannot be sure that any additional equity or debt financing will not be dilutive to holders of our common stock. Further, we cannot be sure that additional equity or debt financing, if required, will be available on favorable terms.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

SHORT-TERM AND LONG-TERM INVESTMENTS

Our investments in short-term and long-term investments are classified as available-for-sale securities and are comprised of corporate debt securities, U.S. government/agency securities, equity securities, municipal securities and investments in privately held companies, in accordance with an investment policy approved by the Board of Directors. Classified as available-for-sale, all of these investments are held at fair value. Although we manage investments under an investment policy, economic, market and other events may occur, which we cannot control. Although the risks are minimal, fixed rate securities may have their fair value adversely impacted because of changes in interest rates and credit ratings. Due in part to these factors, our future investment income may fall short of expectations because of changes in interest rates or we may suffer principal losses if we were to sell securities that have declined in value because of changes in interest rates or issuer credit ratings. We do not hold or issue derivatives, derivative commodity instruments or other financial instruments for trading speculative purposes.

CONVERTIBLE DEBT AND CAPITAL LEASE OBLIGATIONS

Our convertible subordinated notes due 2005 have a fixed interest rate of 3.75%. Consequently, we do not have significant interest rate cash flow exposure on our long-term debt. However, the fair value of the convertible subordinated notes is subject to significant fluctuations due to their convertibility into shares of our stock and other market conditions. The fair value of these convertible subordinated notes is also sensitive to fluctuations in the general level of the U.S. interest rates. We would be exposed to interest rate risk, if we used additional financing to fund capital expenditures. The interest rate that we may be able to obtain on financings will depend on market conditions at that time and may differ from the rates we have secured in the past.

Our capital lease obligations have fixed interest rates and the fair value of these instruments is affected by changes in market interest rates. As a result, we believe that the market risk arising from holdings of our financial instruments is not material.

FOREIGN CURRENCY RISK

We have limited exposure to currency exchange fluctuations, as we manage the sensitivity of our international sales, purchases of raw materials and equipment by denominating most transactions in U.S. dollars. We have recently completed the establishment of an operation in Beijing, China where sales domestically in China are denominated in Renminbi. The currency exchange rate fluctuations in Renminbi are immaterial to our overall operating results and cash flows. We do not currently engage in foreign currency hedging transactions.

CONSOLIDATED BALANCE SHEETS

March 31,	*2003*	*2002*
(In thousands)		
Assets		
Current assets:		
Cash and cash equivalents	**$ 164,422**	$ 157,648
Short-term investments *(Note 3)*	**92,187**	186,526
Accounts receivable, less allowance of $1,078 and $1,134 as of March 31, 2003 and 2002, respectively	**66,849**	56,373
Inventories *(Note 4)*	**57,781**	38,734
Recoverable income taxes	**6,330**	10,786
Prepaid expenses	**3,228**	2,594
Other current assets	**1,824**	3,309
Total current assets	**392,621**	455,970
Property and equipment:		
Land	**3,206**	1,452
Building	**61,787**	–
Machinery and equipment	**260,815**	185,281
Leasehold improvements	**69,928**	67,908
Furniture and fixtures	**8,791**	7,682
Computer equipment and software	**16,343**	12,647
	420,870	274,970
Less accumulated depreciation	**(128,968)**	(84,209)
	291,902	190,761
Construction in progress	**20,111**	30,918
Total property and equipment, net	**312,013**	221,679
Goodwill *(Notes 2 & 7)*	**110,006**	34,525
Intangible assets *(Note 2)*	**56,486**	11,754
Long-term investments *(Notes 2 & 3)*	**59,440**	2,797
Other non-current assets	**2,259**	2,275
Total assets	**$ 932,825**	$ 729,000
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	**$ 26,694**	$ 16,909
Accrued liabilities	**20,185**	14,690
Jazz investment payable	**29,604**	–
Current obligations under capital leases *(Note 8)*	**1,057**	3,319
Total current liabilities	**77,540**	34,918
Long-term debt, net of unamortized discount of $4,135 and $5,752 as of March 31, 2003 and 2002, respectively *(Note 9)*	**295,865**	294,248
Obligations under capital leases, less current portion *(Note 8)*	**611**	169
Other long-term liabilities *(Note 5)*	**1,409**	9,980
Total liabilities	**375,425**	339,315
Shareholders' equity:		
Preferred stock, no par value; 5,000 shares authorized; no shares issued and outstanding	**–**	–
Common stock, no par value; 500,000 shares authorized; 183,958 and 167,768 shares issued and outstanding as of March 31, 2003 and 2002, respectively	**441,077**	279,924
Additional paid-in capital	**73,454**	64,665
Deferred compensation	**(18,700)**	(19,652)
Accumulated other comprehensive income (loss), net of tax	**95**	(6,061)
Retained earnings	**61,474**	70,809
Total shareholders' equity	**557,400**	389,685
Total liabilities and shareholders' equity	**$ 932,825**	$ 729,000

See accompanying notes.

Year ended March 31,	*2003*	*2002*	*2001*
(In thousands, except per share data)			
Revenue:			
Product sales	**$ 506,805**	$ 367,387	$ 333,203
Engineering revenue	**1,014**	1,921	2,161
Total revenue	**507,819**	369,308	335,364
Costs and expenses:			
Cost of goods sold	**325,168**	248,965	181,801
Research and development	**101,736**	74,445	60,340
Marketing and selling	**36,833**	28,993	28,450
General and administrative	**18,364**	14,224	13,495
Other operating expenses *(Note 10)*	**13,961**	14,085	4,607
Impairment of long-lived assets *(Note 6)*	**–**	6,801	–
Total costs and expenses	**496,062**	387,513	288,693
Income (loss) from operations	**11,757**	(18,205)	46,671
Interest expense	**(24,433)**	(17,195)	(9,346)
Interest income	**5,545**	12,166	15,065
Other (expense) income, net	**(1,954)**	(4,179)	19
(Loss) income before income taxes	**(9,085)**	(27,413)	52,409
Income tax (expense) benefit	**(250)**	6,829	(17,435)
Net (loss) income	**$ (9,335)**	$ (20,584)	$ 34,974
Net (loss) income per share:			
Basic	**$ (0.05)**	$ (0.12)	$ 0.22
Diluted	**$ (0.05)**	$ (0.12)	$ 0.20
Shares used in per share calculation:			
Basic	**172,706**	165,827	161,820
Diluted	**172,706**	165,827	173,216

See accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)	Shares	Common Stock Amount	Additional Paid-in Capital	Deferred Compensation	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total
Balance, March 31, 2000	160,209	$ 229,275	$ 26,019	$ (8,560)	$ –	$ 56,419	$ 303,153
Comprehensive income:							
Net income	–	–	–	–	–	34,974	34,974
Unrealized loss on marketable securities, net of tax	–	–	–	–	(223)	–	(223)
Total comprehensive income	–	–	–	–	(223)	34,974	34,751
Exercise of warrants for related party technology license	500	10,001	–	–	–	–	10,001
Issuance of restricted stock awards	–	–	7,946	(7,946)	–	–	–
Exercise of stock options	2,822	5,028	–	–	–	–	5,028
Issuance of common stock in connection with Employee Stock Purchase Plan	179	2,626	–	–	–	–	2,626
Tax benefit from the exercise of stock options	–	–	19,231	–	–	–	19,231
Amortization of deferred compensation	–	–	–	1,708	–	–	1,708
Balance, March 31, 2001	163,710	$ 246,930	$ 53,196	$ (14,798)	$ (223)	$ 91,393	$ 376,498
Comprehensive loss:							
Net loss	–	–	–	–	–	(20,584)	(20,584)
Unrealized loss on marketable securities, net of tax	–	–	–	–	(48)	–	(48)
Reclassification adjustment for realized investment gains, net of tax	–	–	–	–	312	–	312
Unrealized loss on cash flow hedge, net of tax	–	–	–	–	(6,003)	–	(6,003)
Foreign currency translation adjustment	–	–	–	–	(99)	–	(99)
Total comprehensive loss	–	–	–	–	(5,838)	(20,584)	(26,422)
Expiration of warrants for related party technology license	–	–	(4,803)	–	–	–	(4,803)
Issuance of restricted stock awards	–	–	7,332	(7,332)	–	–	–
Exercise of stock options	2,630	7,875	–	–	–	–	7,875
Issuance of common stock in connection with Employee Stock Purchase Plan	269	3,157	–	–	–	–	3,157
Issuance of common stock in connection with RF Nitro merger	1,159	21,962	562	(410)	–	–	22,114
Tax benefit from the exercise of stock options	–	–	8,378	–	–	–	8,378
Amortization of deferred compensation	–	–	–	2,888	–	–	2,888
Balance, March 31, 2002	167,768	279,924	64,665	(19,652)	(6,061)	70,809	389,685
Comprehensive loss:							
Net loss	–	–	–	–	–	(9,335)	(9,335)
Unrealized loss on marketable securities, net of tax	–	–	–	–	(499)	–	(499)
Reclassification adjustment for realized investment gains, net of tax	–	–	–	–	497	–	497
Unrealized loss on cash flow hedge, net of tax	–	–	–	–	(1,752)	–	(1,752)
Reclassification of realized loss due to change in fair value of cash flow hedge	–	–	–	–	7,755	–	7,755
Foreign currency translation adjustment	–	–	–	–	155	–	155
Total comprehensive loss	–	–	–	–	6,156	(9,335)	(3,179)
Issuance of restricted stock awards	–	–	1,959	(1,959)	–	–	–
Accelerated vesting of options	–	–	500	(500)	–	–	–
Cancellation of retired employees' restricted awards	–	–	(1,519)	1,519	–	–	–
Exercise of stock options	2,240	3,352	–	–	–	–	3,352
Issuance of common stock in connection with Employee Stock Purchase Plan	612	3,272	–	–	–	–	3,272
Issuance of common stock in connection with Resonext merger	13,338	154,529	7,715	(3,645)	–	–	158,599
Tax benefit from unrealized gain on investment	–	–	134	–	–	–	134
Amortization of deferred compensation	–	–	–	5,537	–	–	5,537
Balance, March 31, 2003	**183,958**	**$ 441,077**	**$ 73,454**	**$ (18,700)**	**$ 95**	**$ 61,474**	**$ 557,400**

See accompanying notes.

Year ended March 31,	*2003*	*2002*	*2001*
(In thousands, except per share data)			
Operating activities:			
Net (loss) income	**$ (9,335)**	$ (20,584)	$ 34,974
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation	**45,516**	34,989	29,289
Amortization	**6,982**	4,742	1,675
Acquired in-process research and development cost	**10,500**	–	–
Impairment of long-lived assets	**–**	6,801	–
Loss on disposal of building and equipment	**1,685**	125	114
Loss from other-than-temporary decline of long-term investment	**1,801**	3,984	–
Tax benefit from exercise of employee stock options	**–**	8,378	19,231
Amortization of deferred compensation	**5,538**	2,888	1,708
Changes in operating assets and liabilities:			
Accounts receivable	**(10,329)**	(17,705)	21,175
Inventories	**(18,818)**	32,736	(32,626)
Deferred tax asset	**–**	9,028	(3,257)
Prepaid expenses and other current and non-current assets	**1,282**	(3,093)	(1,698)
Accounts payable	**9,501**	1,456	(706)
Accrued liabilities	**3,565**	4,728	273
Income taxes payable/recoverable income taxes	**4,558**	17,691	(27,681)
Non-current deferred tax liability	**–**	(19,471)	13,889
Other long-term liabilities	**(473)**	2,377	–
Net cash provided by operating activities	**51,973**	69,070	56,360
Investing activities:			
Purchase of held-to-maturity securities	**–**	–	(108,764)
Proceeds from maturities of held-to-maturity securities	**–**	17,950	66,875
Purchase of available-for-sale securities	**(261,238)**	(309,292)	–
Proceeds from maturities of available-for-sale securities	**354,762**	177,343	–
Purchase of other investments	**(30,000)**	–	(5,000)
Purchase of businesses, net of cash acquired	**25,257**	(17,838)	–
Purchase of property and equipment	**(136,982)**	(51,927)	(89,742)
Proceeds from sale of property and equipment	**11**	256	13,022
Purchase of technology licenses	**–**	(130)	(135)
Net cash used in investing activities	**(48,190)**	(183,638)	(123,744)
Financing activities:			
Proceeds from convertible debt offering, net of debt issuance costs of $442 and discount of $8,250	**–**	–	291,308
Proceeds from exercise of stock options, warrants and employee stock purchases	**6,623**	11,032	17,655
Repayment of capital lease obligations	**(3,679)**	(4,892)	(4,459)
Net cash provided by financing activities	**2,944**	6,140	304,504
Net increase (decrease) in cash and cash equivalents	**6,727**	(108,428)	237,120
Cash and cash equivalents at beginning of year	**157,648**	266,076	28,956
Effect of exchange rate changes on cash	**47**	–	–
Cash and cash equivalents at end of year	**$ 164,422**	$ 157,648	$ 266,076
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	**$ 22,382**	$ 15,851	$ 6,734
Cash paid during the year for income taxes	**$ 9**	$ 30	$ 16,371
Non-cash investing and financing activities:			
Stock issued in connection with business combinations, net of cash received	**$ 133,342**	$ 22,114	$ –
Jazz investment payable	**30,000**	–	–
Other comprehensive income (loss)	**6,156**	(5,838)	(223)
FIN44 deferred compensation for business combination	**3,645**	410	–
Issuance of restricted stock	**1,959**	8,148	7,946
Retirement of restricted stock	**(1,518)**	(816)	–
Acceleration of options	**500**	–	–
Expiration of stock warrant for technology license	**–**	4,803	–

See accompanying notes.

1. COMPANY INFORMATION

RF Micro Devices, Inc. (the Company) designs, develops, manufactures and markets proprietary radio frequency integrated circuits (RFICs) for wireless communications products and applications. As such, the Company operates as a single business segment. The Company's products are primarily included in cellular phones, base stations, wireless local area networks (WLAN), cable television modems and global positioning systems (GPS). The Company derives revenue from the sale of standard and custom-designed products. The Company offers a broad array of products – including amplifiers, mixers, modulators/demodulators and single chip transmitters, receivers and transceivers – that represent a substantial majority of the RFICs required in wireless subscriber equipment. These RFICs perform the transmit and receive functions that are critical to the performance of wireless devices.

The Company addresses the various wireless markets by a product delivery strategy called *Optimum Technology Matching®*. This product delivery strategy utilizes multiple distinct semiconductor process technologies: aluminum gallium arsenide (AlGaAs) (also referred to as gallium arsenide (GaAs)), heterojunction bipolar transistor (HBT), silicon bipolar transistor, silicon complementary metal-oxide-semiconductor (CMOS), silicon BiCMOS (integration of bi-polar transistors and CMOS), silicon germanium (SiGe) BiCMOS, GaAs metal-semiconductor field-effect transistor (MESFET), and indium gallium phosphide (InGaP) HBT. The Company is also actively developing and evaluating the development of integrated circuits utilizing gallium nitride (GaN) and GaAs pseudomorphic high electron mobility transistor (pHEMT). The approach to using multiple semiconductor process technologies allows the Company to offer customers products that fulfill their performance, cost and time-to-market requirements.

During fiscal 2002, the Company merged with RF Nitro Communications, Inc. (RF Nitro), a privately held company with advanced materials and products in broadband wireless and wireline (fiber-optic) markets. As a result of the $25.1 million merger, the Company gained access to advanced compound semiconductor processes, such as GaN, as well as additional resources to conduct advanced research on this and other technologies. Additionally in fiscal 2002, the Company acquired the global positioning system (GPS) development operation of International Business Machines Corp. (IBM) for $15 million in cash. The acquisition provides the Company with advanced GPS technology and access to IBM's chipscale packaging technology. The GPS development operation was the first to introduce GPS solutions using SiGe, which reduces size, power consumption and noise figure, and enables higher levels of integration.

In December 2002, the Company completed the merger with Resonext Communications, Inc. (Resonext), a privately held company providing, highly integrated CMOS WLAN solutions for 802.11a and multi-band (802.11a/b/g) platforms. The merger with Resonext expands the Company's total addressable market and is expected to complement the Company's growing presence in 802.11b products. Resonext provides highly integrated two-chip CMOS solutions for 5GHz and dual band WLAN platforms.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

ACCOUNTING PERIODS

The Company uses a 52- or 53-week fiscal year ending on the Saturday closest to March 31 of each year. The most recent three fiscal years ended on March 29, 2003, March 30, 2002 and March 31, 2001. Fiscal years 2003 and 2002 were 52-week years and fiscal year 2001 was a 53-week year. For purposes of financial statement presentation, each fiscal year is described as having ended on March 31.

RECLASSIFICATIONS

Certain amounts in the March 31, 2002 and 2001 consolidated financial statements have been reclassified to conform to the March 31, 2003 presentation. These reclassifications had no effect on net (loss) income or shareholders' equity as previously reported.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and other accrued liabilities approximate fair values as of March 31, 2003 and 2002. The Company's convertible subordinated notes had a fair value of $274.9 million and $255.2 million as of March 31, 2003 and March 31, 2002, respectively, on the Private Offerings, Resale and Trading through Automated Linkages (PORTAL) Market compared to the carrying amounts of $295.9 million and $294.3 million on such dates, respectively

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The Company makes estimates for the allowance for doubtful accounts, inventory reserves, warranty reserves, income tax valuation, investment impairments, impairments of goodwill, long-lived assets and other financial statement amounts on a regular basis and makes adjustments based on historical experiences and existing and expected future conditions. Actual results could differ from these estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of demand deposit accounts, money market funds and temporary, highly liquid investments with original maturities of three months or less when purchased.

INVESTMENTS

Short-term

Investments are accounted for in accordance with Statement of Financial Accounting Standards No. 115 (SFAS 115), "Accounting for Certain Investments In Debt and Equity Securities." Securities are classified as held-to-maturity when the Company has the positive intent and ability to hold to maturity; securities are classified as trading securities when the Company buys and holds principally for the purpose of selling in the near term; and all other securities are classified as available-for-sale. The Company currently does not hold any trading or held-to-maturity securities.

Investments available-for-sale at March 31, 2003 consisted of corporate debt securities, U.S. government/agency securities, equity and municipal securities. All securities had original maturities of less than one year when purchased. Investments available-for-sale at March 31, 2002 consisted of corporate debt securities, U.S. government/agency securities, equity securities, municipal securities and a foreign government security. Available-for-sale securities are carried at fair value as determined by quoted market prices, with the unrealized gains and losses, net of tax, reported as a separate component of shareholders' equity in accordance with SFAS 115. The cost of securities sold is based on the specific identification method and any realized gain or loss is included in other (expense) income. The amortized cost of debt securities is adjusted for amortization of premium and accretion of discounts and is included as a portion of interest. The Company monitors investments for impairment and records other-than-temporary declines in value if the market value is estimated to be below its cost basis for an extended period or the issuer has experienced significant financial difficulties. During fiscal 2003, the Company recorded a $0.5 million charge for the impairment of a public equity security, which represents management's best estimate of an other-than-temporary decline in value based on historical and current market prices.

Long-term

The Company has an investment in the equity of a privately held company, originally valued at $5.0 million. The investment represents less than 5% ownership, and the Company does not have the ability to exercise significant influence in the management of the invested company. This investment was carried at its original cost and accounted for using the cost method of accounting for investments in accordance with Accounting Principles Board Opinion No. 18, (APB 18) "The Equity Method of Accounting for Investments in Common Stock." The Company monitors this investment for impairment and recognizes other-than-temporary declines in value if the market value is estimated to be below its cost basis for an extended period or the issuer has experienced significant financial difficulties. During fiscal 2002, the Company recorded a $3.6 million charge for the impairment of this investment, which represents management's best estimate of an other-than-temporary decline in value. The charge was included in other (expense) income, net. During fiscal 2003, the Company recorded an additional $1.3 million charge for impairment of this investment, which represents management's best estimate of an other-than-temporary decline in value. As of March 31, 2003 this investment is valued at $0.05 million.

On October 15, 2002, the Company entered into a strategic relationship with Jazz Semiconductor, Inc. (Jazz), a privately-held, radio frequency (RF) and mixed-signal silicon wafer foundry, for silicon manufacturing and development. Under the arrangement, the Company obtained a committed, lower cost source of supply for wafers fabricated utilizing Jazz's silicon manufacturing processes. In addition, the Company will collaborate with Jazz on joint process development and the optimization of these processes for fabrication of next-generation silicon RFICs. As part of its strategic relationship with Jazz, the Company agreed to invest approximately $60.0 million in Jazz, $30.0 million of which was invested in October 2002 and $30.0 million of which is payable in the third quarter of fiscal 2004. The investment represents a minority interest in Jazz operations, and the Company has one seat on the board of directors out of nine; accordingly, the Company does not believe it will have the ability to exercise significant influence over the management of Jazz operations. This investment is carried at its original cost and accounted for using the cost method of accounting for investments in accordance with APB 18.

In making impairment determinations for investments of privately held companies and investments of available-for-sale securities, the Company utilizes certain assumptions, including, but not limited to each company's cash position, financing needs, earnings, revenue outlook, operational performance, management or ownership changes as well as competition. In making impairment determinations for investments of available-for-sale securities, the Company additionally reviews the current market price for other-than-temporary decline in values.

INVENTORIES

Inventories are stated at the lower of cost or market determined using the average cost method. The Company's business is subject to the risk of technological and design changes. The Company evaluates inventory levels quarterly against sales forecasts on a part-by-part basis and evaluates its overall inventory risk. Reserves are adjusted to reflect inventory values in excess of forecasted sales as well as overall inventory risk assessed by management. In the event the Company sells inventory that had been covered by a specific inventory reserve, the sale is recorded at the actual selling price and the related cost of goods sold at the full inventory cost. Inventory deemed obsolete is required by Company policy to be carried for a period not to exceed one year so that customers may be notified and find a suitable replacement. Once the one-year period is complete, the inventory will be disposed of and the inventory value and related reserve will be written off by the Company.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the assets, ranging from three to 20 years. The Company's assets acquired under capital leases and leasehold improvements are amortized over the lesser of the asset life or lease term and included in depreciation.

INTANGIBLES AND GOODWILL

Intangibles consist primarily of technology licenses and assets resulting from business combinations. Technology licenses are amortized on a straight-line basis over the lesser of the estimated useful life of the technology or the term of the license agreement, ranging from five to 20 years. Acquired product technology and other intangible asset costs are also amortized on a straight-line basis over the estimated useful life, ranging from one to ten years. In fiscal 2003, the Company acquired $47.6 million of product technology related to the Resonext merger *(see Note 7)*. The following summarizes certain information regarding gross carrying amounts and amortization of intangibles (in thousands):

	March 31, 2003		*March 31, 2002*	
	Gross Carrying Amount	*Accumulated Amortization*	*Gross Carrying Amount*	*Accumulated Amortization*
Intangible Assets:				
Technology licenses	**$ 11,980**	**$ 3,302**	$ 11,980	$ 2,503
Acquired product technology and other	**50,579**	**2,771**	2,680	403
Total	**$ 62,559**	**$ 6,073**	$ 14,660	$ 2,906

Intangible asset amortization expense was $3.2 million, $1.5 million and $1.1 million in fiscal 2003, 2002 and 2001, respectively. The following table provides the Company's estimated future amortization expense based on current amortization periods for the periods indicated (in thousands):

Year Ending March 31,	*Estimated Amortization Expense*
2004	$ 6,832
2005	6,147
2006	6,147
2007	5,865
2008	5,249

The Company assesses the recoverability of its intangibles and other assets by determining its ability to generate future cash flows sufficient to recover the unamortized balances over the remaining useful lives. Intangibles and other assets determined to be unrecoverable based on future cash flows would be written off in the period in which the determination was made as required by Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142) and Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144).

Goodwill represents the excess of the purchase price over the fair value of assets acquired and liabilities assumed in a business combination. SFAS 142 eliminates the amortization of goodwill and instead requires that the goodwill be evaluated for impairment on an annual basis, or whenever events indicate impairment may have occurred. In accordance with SFAS 142, the Company evaluated its goodwill and found no indication of impairment in fiscal 2003. The methods used to evaluate goodwill included two generally accepted valuation methodologies: the income approach – discounted cash flows, and the market approach – enterprise value and guideline company analysis. Newly acquired goodwill determinations are based on independent appraisals.

The following summarizes information regarding the gross carrying amount of goodwill (in thousands):

	March 31, 2003 Gross Carrying Amount	*March 31, 2002 Gross Carrying Amount*
Resonext goodwill *(Note 7)*	**$ 75,481**	$ –
RF Nitro goodwill	**19,379**	19,379
GPS goodwill	**15,146**	15,146
Total	**$ 110,006**	$ 34,525

REVENUE RECOGNITION

Revenue from product sales is recognized when the title, and risk and rewards of product ownership, is transferred. The Company also enters into engineering agreements with certain customers relating to the development of customer specific applications. Revenue is recognized for engineering contracts as it is earned.

The Company's products generally carry 12 to 27 month warranties against defects depending on the specific type of product. The Company provides for estimated warranty costs in the period the related sales are made based on historical experience, as well as an assessment of the overall risk.

SHIPPING AND HANDLING COST

The Company recognizes amounts billed to a customer in a sale transaction related to shipping and handling as revenue. The costs incurred by the Company for shipping and handling are classified as cost of goods sold.

RESEARCH AND DEVELOPMENT

The Company charges all research and development costs to expense as incurred.

ADVERTISING COSTS

The Company expenses advertising costs as incurred. The Company recognized advertising expense of $1.0 million for each of the fiscal years ended March 31, 2003, 2002 and 2001.

INCOME TAXES

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109). Under SFAS 109, the liability method is used in accounting for income taxes, and deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities.

STOCK-BASED COMPENSATION

The Company accounts for employee stock options and employee restricted stock in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). Under APB 25, no compensation expense is recognized for stock options or restricted stock issued to employees with exercise prices or share prices at or above quoted market value. For stock options or restricted shares granted at exercise prices below quoted market value, the Company records deferred compensation expense for the difference between the price of the shares and the market value. Deferred compensation expense is amortized ratably over the vesting period of the related options or shares of restricted stock.

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123) provides an alternative to APB 25 in accounting for stock-based compensation issued to employees. SFAS 123 provides for a fair value based method of accounting for employee stock options and similar equity instruments. Companies that continue to account for stock-based compensation arrangements under APB 25 are required by SFAS 123 to disclose the pro forma effect on net (loss) income and net (loss) income per share as if the fair value based method prescribed by SFAS 123 had been applied. The Company has continued to account for stock-based compensation using the provisions of APB 25 and presents the information required by SFAS 123 as amended by Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" (SFAS 148).

Pro forma Disclosures

Pro forma information regarding net (loss) income and net (loss) income per share is required by SFAS 123 as amended by SFAS 148, and has been determined as if the Company accounted for its employee stock options using the fair value method of SFAS 123 as amended by SFAS 148.

The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following assumptions:

Years Ended March 31,	*2003*	*2002*	*2001*
Expected dividend yield	**–**	–	–
Risk-free interest rate	**3.7%**	5.2%	4.8%
Expected volatility	**102.2%**	111.7%	125.5%
Weighted average expected life	**7.6**	8.3	8.5

For purposes of pro forma disclosures, the estimated fair value of stock-based awards is amortized to expense over the awards' vesting periods. The weighted average fair value of options granted during fiscal years 2003, 2002 and 2001 was $7.28, $16.39 and $24.32, respectively. The pro forma stock-based compensation costs for fiscal 2002 and 2001 have been revised from amounts previously reported. The Company's pro forma information follows (in thousands, except per share data):

Year Ended March 31,	*2003*	*2002*	*2001*
Net (loss) income, as reported	**$ (9,335)**	$ (20,584)	$ 34,974
Non-cash stock-based compensation included in net (loss) income	**5,537**	2,888	1,708
Pro forma stock-based compensation cost	**(82,804)**	(79,681)	(78,669)
Pro forma net (loss) income	**$ (86,602)**	$ (97,377)	$ (41,987)
Basic net (loss) income per share, as reported	**$ (0.05)**	$ (0.12)	$ 0.22
Diluted net (loss) income per share, as reported	**$ (0.05)**	$ (0.12)	$ 0.20
Pro forma basic net (loss) income per share	**$ (0.50)**	$ (0.59)	$ (0.26)
Pro forma diluted net (loss) income per share	**$ (0.50)**	$ (0.59)	$ (0.26)

SALES AND ACCOUNTS RECEIVABLE

The Company operates as a single business segment engaged in the design and sale of integrated circuits. Revenues from significant customers, those representing 10% or more of total sales for the respective periods, are summarized as follows:

Year ended March 31,	*2003*	*2002*	*2001*
Customer 1	**45%**	65%	53%
Customer 2	**14%**	5%	4%

Additionally, 27%, 56% and 40% of the Company's accounts receivable were due from customer one at March 31, 2003, 2002 and 2001, respectively. The Company's accounts receivable at March 31, 2001 included a balance from a second customer of 13%. At March 31, 2002 and March 31, 2003 the Company's accounts receivable did not include any balances from other customers greater than 10% of the accounts receivable balance.

The Company's principal financial instrument subject to potential concentration of credit risk is accounts receivable, which is unsecured. The Company provides an allowance for doubtful accounts equal to estimated losses expected to be incurred in the collection of accounts receivable.

FOREIGN CURRENCY TRANSLATION

The financial statements of foreign subsidiaries have been translated into United States dollars in accordance with Statement of Financial Accounting Standards No. 52 "Foreign Currency Translation". All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet dates. Income statement amounts have been translated using the average exchange rates for the respective years. The gains and losses resulting from the changes in exchange rates from year to year have been reported in accumulated other comprehensive income (loss) included in the consolidated statements of stockholders' equity.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (SFAS 145). The Company adopted SFAS 145 for financial statements issued on or after May 15, 2002. Adoption of SFAS 145 did not have a significant impact on the Company's consolidated financial position, results of operations or cash flows.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146). SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002, and the Company will adopt SFAS 146 prospectively. The adoption of SFAS 146 did not have a significant impact on the Company's consolidated financial position, results of operations or cash flows.

In October 2002, the FASB issued Statement of Financial Accounting Standards No. 147, "Acquisitions of Certain Financial Institutions- An Amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9" (SFAS 147). SFAS 147 is an industry specific standard and is not applicable to the Company; therefore, it did not have an impact on the Company's consolidated financial position, results of operations or cash flows.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" (SFAS 148). SFAS 148 amends Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), to provide alternative methods of transition to SFAS 123's fair value method of accounting for stock-based employee compensation. SFAS 148 also amends the disclosure provisions in SFAS 123 and APB Opinion No. 28, "Interim Financial Reporting", to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. The Company has adopted the disclosure provisions for interim periods beginning after March 31, 2003 and has adopted the annual financial reporting requirements in fiscal 2003. The Company's adoption of SFAS 148 did not have a significant impact on the Company's consolidated financial position, results of operations or cash flows.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). FIN 44 is the interpretation of Accounting Research Bulletin No. 51 "Consolidated Financial Statements," which addresses consolidation by business enterprises of variable interest entities. FIN 46 is effective immediately for all variable interest entities created after January 31, 2003 and effective for fiscal years beginning after June 15, 2003 for variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003.

The Company will adopt FIN 46 in fiscal 2004. The adoption of FIN 46 is not expected to have a significant impact on our consolidated financial position, results of operations or cash flows.

3. INVESTMENTS

The following is a summary of available-for-sale securities at March 31, 2003 and March 31, 2002 (in thousands):

	Available-for-Sale Securities			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2003				
U.S. government/ agency securities	**$ 10,992**	**$ 4**	**$ –**	**$ 10,996**
Corporate debt securities	**79,808**	**44**	**(11)**	**79,841**
Equity securities	**121**	**–**	**–**	**121**
Municipal debt securities	**1,350**	**–**	**–**	**1,350**
	$ 92,271	**$ 48**	**$ (11)**	**$ 92,308**
March 31, 2002				
U.S. government/ agency securities	$ 74,888	$ 77	$ (57)	$ 74,908
Corporate debt securities	99,983	97	(39)	100,041
Equity securities	617	–	(183)	434
Municipal debt securities	10,035	–	(1)	10,034
Foreign debt securities	2,537	11	–	2,548
	$ 188,060	$ 185	$ (280)	$ 187,965

The estimated fair value of available-for-sale securities was based on the prevailing market values on March 31, 2003 and March 31, 2002.

In addition to the available-for-sale securities above, the Company has an investment in the equity of a privately held company with a fair market value at March 31, 2002 of $1.4 million. At March 31, 2003, the Company has an investment in the equity of two privately held companies with a fair market value of $59.3 million, net of discount related to the note payable for the Jazz investment.

Debt securities held at March 31, 2003 are due within one year. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations.

4. INVENTORIES

The components of inventories are as follows (in thousands):

March 31,	*2003*	*2002*
Raw materials	**$ 15,942**	$ 16,263
Work in process	**30,174**	26,136
Finished goods	**29,672**	21,528
	75,788	63,927
Inventory reserves	**(18,007)**	(25,193)
Total inventories	**$ 57,781**	$ 38,734

5. DERIVATIVE FINANCIAL INSTRUMENTS

On April 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). The standard establishes a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities.

FINANCIAL REPORTING POLICY

The Company used an interest rate swap agreement to effectively convert a $95.0 million notional amount of its variable rate synthetic lease to a fixed rate basis, thus reducing the impact of interest rate changes on future results of operations commencing April 2001 through November 2004. The interest rate swap was a cash flow hedge and was recorded on the consolidated balance sheet at its fair value of $6.0 million as of March 31, 2002, which was included in other long-term liabilities and comprehensive loss with no impact on earnings.

During fiscal 2002, the terms and provisions of the interest-rate swap and the $95.0 million hedged item (synthetic lease) exactly matched, enabling the Company to use the hypothetical method of accounting for derivatives as defined by SFAS 133. This hedge was an amortizing swap that was perfectly effective in offsetting changes in expected cash flows due to fluctuations in the variable interest rate over the term of the lease since the notional amount reduction exactly matched the principal reduction in the synthetic lease transaction. This agreement involved the receipt of the variable rate amounts in exchange for a fixed rate interest payment over the life of the agreement without exchange of the underlying notional amounts. The differential in rates resulted in cash to be paid or received and was recognized as an adjustment to interest expense or income for the reporting period.

On November 19, 2002, the Company terminated the remaining amount of the synthetic lease, and purchased the underlying assets for $84.5 million, with available cash on hand. As a result, the Company's interest rate swap cash flow hedge was no longer eligible for hedge accounting. The interest rate swap was valued at $7.8 million and was paid off on November 21, 2002 in connection with the synthetic lease termination. The termination of the interest rate swap was recognized as a loss for financial reporting purposes in the Company's consolidated statements of operations and was included as an expense in other (expense) income.

6. IMPAIRMENT OF LONG-LIVED ASSETS

On April 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). SFAS 144 which supersedes Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of" (SFAS 121), establishes a single accounting model for long-lived assets to be disposed of by sale and resolves implementation issues related to SFAS 121. During the quarter ended June 30, 2001, the Company recognized an impairment charge totaling $6.8 million related to assets to be held and used, as well as to assets to be disposed of, which is presented on the consolidated statements of operations as "Impairment of long-lived assets."

During the quarter ended June 30, 2001, management identified a customer demand shift from microwave monolithic integrated circuits (MMICs) to more complex, highly integrated multi-chip module power amplifiers, which created an impairment of the

$3.1 million carrying value for certain of the Company's MMIC gravity-fed test handling equipment. The impairment charge for the applicable equipment totaled $2.8 million, with a $0.3 million residual value remaining. During the first quarter of fiscal 2003, the Company determined that the plan of sale criteria pursuant to SFAS 144 had not been met for these assets. As a result, the assets were measured at the lower of the net carrying amount (reflecting accumulated depreciation and impairment loss) or the estimated fair value of $0.1 million and the assets were reclassified from "Assets to be Disposed of by Sale" to "Assets to be Held and Used".

The Company's management additionally made a decision during the quarter ended June 30, 2001 to outsource module production packaging and transition the Company's packaging line to a dedicated research and development (R&D) facility, which resulted in a $4.0 million asset impairment charge. As a result of the transition to an R&D facility, the Company identified certain excess capacity and determined that the estimated future cash flows for an R&D line did not support the carrying value of the assets related to the full capacity initially invested by the Company. The impaired assets are module assembly packaging equipment for surface mount devices, die attach, wire-bond and molding processes. The fair market value of these assets was estimated based on the historical selling prices for used equipment of a similar type, and the carrying values were adjusted accordingly. The asset impairment charge for the transition to an R&D facility was classified as "Assets to be Held and Used."

7. BUSINESS COMBINATION

RESONEXT COMMUNICATIONS, INC.

On December 19, 2002, the Company completed the merger with Resonext, a privately held company providing highly integrated silicon CMOS WLAN solutions for 802.11a and multi-band (802.11a/b/g) platforms. The merger with Resonext expands the Company's total addressable market and is expected to complement the Company's growing presence in 802.11b products. Resonext provides highly integrated two-chip CMOS solutions for 5GHz and dual band WLAN platforms.

Pursuant to an Agreement and Plan of Merger and Reorganization, dated as of October 15, 2002 and amended as of November 21, 2002, between the Company and Resonext (the "Agreement"), the Company agreed to issue $133.0 million in common stock for all the outstanding shares of capital stock of Resonext, including shares issuable upon exercise of outstanding warrants and employee stock options. Based on the Agreement, the Company's stock was valued at $9.50 per share for the purpose of calculating the number of shares to be issued in this transaction, as determined by a trailing 20-trading day average price and a collar on the Company's stock price of $9.50 per share. The Company issued 13,329,896 shares of common stock (net of dissenters) for all of the outstanding shares of capital stock of Resonext. The Company reserved an additional 660,115 shares for issuance upon exercise of outstanding Resonext warrants and employee stock options. Of the 13.3 million shares issued at the closing, 1.4 million shares were placed in escrow to secure certain indemnification obligations of the former Resonext stockholders for a period of one year.

This merger was accounted for in accordance with the Statement of Financial Accounting Standard No. 141 "Business Combinations" (SFAS 141). The results of operations of Resonext have been included in the consolidated financial results of the Company since the date of merger. There are no significant differences between the accounting policies of the Company and Resonext.

The aggregate purchase price value of the Resonext merger determined in accordance with SFAS 141 was $161.2 million, including a total of 14.0 million shares of common stock and replacement stock options and warrants valued at $158.6 million and $2.5 million of incurred transaction-related fees. The value of the 13.3 million common shares issued at closing was determined based on a measurement date of November 29, 2002 in accordance with Emerging Issues Task Force Issue No. 99-12 "Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination" (EITF 99-12). The value of the Company's common shares for the purpose of determining its purchase price was $11.67 and was calculated based on the average of the closing prices of the Company's common stock in the period from the three trading days prior to, including and subsequent to the measurement date. The remaining 0.7 million options and warrants were valued based on the fair value estimated at the measurement date using a Black-Scholes option pricing model. The values assigned to these common shares, options and warrants were adjusted for the outstanding unvested options and shares related to future service, which were recorded as deferred compensation in accordance with FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" (FIN 44). The purchase price adjustment was based on the intrinsic value of the unvested options and shares, which was determined by the difference between the value of the Company's common stock on the date of consummation and the exercise price of such options and warrants.

The total purchase price components are as follows (in thousands):

Common stock issued	$ 155,559
Value of options and warrants	6,697
Unvested equity compensation	(3,657)
Total stock, options and warrants	$ 158,599
Transaction costs	2,542
Cash paid for dissenters	95
Total purchase price	$ 161,236

The total purchase price of $161.2 million was allocated to the assets acquired and liabilities assumed based on their fair values as determined by an independent appraisal as of December 19, 2002 and evaluated by the Company, as follows (in thousands):

Total purchase price	$ 161,236
Current assets, including cash of $27.7 million	$ 28,411
Property, plant and equipment	2,538
Other assets	157
Identifiable intangible assets:	
Core technology	45,100
In-process research and development	10,500
Developed technology	2,500
Customer contracts	300
Total assets acquired	$ 89,506
Current liabilities	$ 1,892
Long-term debt	1,859
Total liabilities assumed	$ 3,751
Resulting goodwill	$ 75,481

Of the $58.4 million of acquired identifiable intangible assets, $45.1 million represents the value of acquired core technology; $2.5 million represents the value of acquired developed technology; $10.5 million represents the value of in-process research and development cost that has no alternative future use; and $0.3 million represents the value of customer contracts. The core and developed technology assets acquired are being amortized on a straight-line basis over their estimated useful lives of four and ten years, respectively. The value of the acquired in-process research and development was determined by estimating the costs to develop the purchased in-process research and development into a commercially viable product, estimating the resulting cash flows from the sale of the products resulting from the completion of the in-process research and development and discounting the net cash flows using a present value factor of 19%. The acquired in-process research and development with no alternative future use was charged to expense at the merger date (Note 2) in accordance with SFAS 142. The remaining customer contract value will be amortized over the estimated useful life of one year.

The $75.5 million allocated to goodwill represents the excess of the purchase price over the fair value of assets acquired and liabilities assumed. The goodwill is allocated to the consolidated Company as a whole because the Company operates as a single reporting unit. In accordance with SFAS 142, the goodwill is not being amortized and will be evaluated for impairment on an annual basis. Of the total amount of goodwill, none is expected to be deductible for federal income tax purposes.

PRO FORMA CONSOLIDATED FINANCIAL DATA

The following unaudited pro forma consolidated financial information reflects the Company's consolidated results of operations for the periods ended March 31, 2003 and March 31, 2002 as if the Resonext merger had occurred on April 1, 2002 and 2001, respectively (in thousands).

Year Ended March 31,	*2003*	*2002*
Revenue	**$ 507,819**	$ 369,308
Net (loss) income	**$ (32,464)**	$ (33,646)
Net (loss) income per share:		
Basic	**$ (0.17)**	$ (0.19)
Diluted	**$ (0.17)**	$ (0.19)

These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what operating results would have been had the merger actually taken place on April 1, 2002 and 2001. In addition, these results are not intended to be a projection of future results and do not reflect any synergies that might be achieved from the combined operations.

8. LEASES

The Company leases certain equipment and facilities under capital and non-cancelable operating leases. The table below depicts capitalized leased equipment balances included in property and equipment (in thousands):

March 31,	*2003*	*2002*
Machinery and equipment-leased	**$ 4,287**	$ 22,327
Accumulated amortization	**(2,174)**	(12,305)
Total	**$ 2,113**	$ 10,022

The Company is a party to 33 capital leases with five equipment-financing companies under which it has financed the cost of capital equipment and leasehold improvements. Lease terms range from 12 months to 60 months with effective interest rates ranging from 7.0% to 11.0%. Capital lease amortization totaling approximately $3.2 million, $3.6 million and $3.5 million is included in depreciation expense for the fiscal years ended March 31, 2003, 2002 and 2001, respectively. No interest expense related to this equipment under capital leases has been capitalized in fiscal 2003, 2002 or 2001.

The Company leases the majority of its facilities from several third party real estate developers including the corporate facility, the first wafer fabrication facility, the molecular beam epitaxy (MBE) facility, and other facilities. The terms of these operating leases range from four to 15 years and several have renewal options up to two ten-year periods. The Company also leases various machinery and equipment and office equipment under non-cancelable operating leases.

Minimum future lease payments under non-cancelable capital and operating leases as of March 31, 2003 are as follows (in thousands):

Year Ending March 31,	*Capital*	*Operating*
2004	$ 1,079	$ 8,701
2005	617	6,760
2006	84	5,981
2007	–	5,187
2008	–	4,625
Thereafter	–	26,390
Total minimum payments	1,780	$ 57,644
Less amounts representing interest	(112)	
Present value of net minimum payments	1,668	
Less current portion	(1,057)	
Obligations under capital leases, less current portion	$ 611	

Rent expense under operating leases, including facilities and equipment, was approximately $21.0 million, $28.4 million and $14.6 million for the fiscal years ended March 31, 2003, 2002 and 2001, respectively.

SYNTHETIC LEASE

In August 1999, as modified effective December 1999 and August 2001, the Company entered into a $100.0 million synthetic lease with a financial institution. A synthetic lease is an asset-based financing structured to be treated as an operating lease for accounting purposes, but as a capital lease for tax purposes. On November 19, 2002, the Company retired the remaining amount of the synthetic lease, and purchased the underlying assets of equipment and our second wafer fabrication facility for $84.5 million, with available cash on hand. As a result, the Company's interest rate swap cash flow hedge was no longer eligible for hedge accounting and was removed from the Company's balance sheet as of December 31, 2002. The amount terminated for the interest rate swap was $7.8 million and was settled on November 21, 2002. The termination of the interest rate swap was recognized as a loss for financial reporting purposes on the Company's consolidated statements of operations for the third quarter ended December 31, 2002 and was included as an expense in other (expense) income.

SALE-LEASEBACK

The Company completed a sale-leaseback transaction with respect to the Company's corporate headquarters in March 2001. The transaction included the sale of the land and building for total consideration of $13.4 million. The lease covers an initial term of 15 years with options to extend the lease for two additional periods of ten years each. Annual rent expense will be approximately $1.3 million for each of the first five years and will escalate by 2% each year thereafter. The Company will recognize rent expense on a straight-line basis in accordance with Statement of Financial Accounting Standards No. 13, "Accounting for Leases" (SFAS 13), starting with the beginning of the lease term. The transaction was deemed a normal leaseback as defined in Statement of Financial Accounting Standards No. 98, "Accounting for Sales of Real Estate" (SFAS 98). The Company recorded a sale and operating lease, thus removing the property from the Company's consolidated balance sheet and is deferring the profit of $1.4 million over the 15-year lease term in accordance with Statement of Financial Accounting Standards No. 66, "Accounting for Sales of Real Estate" (SFAS 66) and SFAS 13.

9. LONG-TERM DEBT

On August 11, 2000, the Company completed the private placement of $300.0 million aggregate principal amount of 3.75% convertible subordinated notes due 2005. The notes are convertible into a total of approximately 6.7 million shares of the Company's common stock at a conversion price of $45.085 per share as adjusted for the August 25, 2000 two-for-one common stock split. The trading value of the Company's stock on the commitment date, August 7, 2000, was $35.50 (adjusted for the common stock split). The net proceeds of the offering were approximately $291.3 million after payment of the underwriting discount and expenses of the offering, which are being amortized over the term of the notes based on the effective interest method.

10. OTHER OPERATING EXPENSES

Other operating expenses for fiscal 2003 include approximately five months of pre-production costs associated with the start-up of the Company's test and tape and reel facility in Beijing, China and an acquired in-process research and development charge of $10.5 million related to the Resonext merger in the third quarter of fiscal 2003.

The in-process research and development was charged to expense in accordance with SFAS 141, which specifies that the amount assigned to acquired intangible assets to be used in a particular research and development project that have no alternative future use shall be charged to expense at the merger date.

The China facility's start-up costs have been expensed as incurred in accordance with the American Institute of Certified Public Accountants' Statement of Position 98-5, "Reporting on the Costs of Start-up Activities." The operating costs of the Beijing facility transitioned to cost of goods sold in September once the facility was qualified for production and economic value was obtained. The prior year results included start-up costs associated with our second wafer fabrication facility in Greensboro, North Carolina, which qualified for production in the third quarter of fiscal 2002. Accordingly, associated expenses transitioned from other operating expenses to cost of goods sold during that quarter.

11. INCOME TAXES

Deferred income tax assets and liabilities are determined based upon differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The components of the income tax (provision) benefit are as follows (in thousands):

Year Ended March 31,	*2003*	*2002*	*2001*
Current:			
Federal	**$ –**	$ 12,670	$ (6,055)
State	**–**	3,368	(748)
Foreign	**(250)**	(73)	–
Deferred (expense) benefit	**–**	(9,136)	(10,632)
Total	**$ (250)**	$ 6,829	$ (17,435)

The Company has recorded tax benefits provided by the Job Creation and Worker Assistance Act of 2002, enacted on March 9, 2002, which include additional accelerated tax depreciation, expanded carry-back opportunities and reduction of alternative minimum tax limitations. As a result of these law changes, additional tax benefits and refundable taxes in excess of earlier estimates are now available to the Company and are included herein.

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

March 31,	*2003*	*2002*
Current deferred tax assets (liabilities):		
Allowance for bad debts	**$ 405**	$ 423
Warranty reserve	**388**	386
Inventory reserve	**6,758**	9,394
Accrued vacation	**1,652**	1,231
Sale/leaseback	**516**	487
Other	**1,190**	1,034
Total current deferred tax assets	**10,909**	12,955
Valuation reserve for current deferred tax assets	**(10,909)**	(12,955)
Net current deferred asset (liability)	**$ –**	$ –
Non-current deferred tax assets (liabilities):		
Interest rate swap derivative	**$ –**	$ 2,673
Net operating loss carry-forwards	**29,610**	9,675
Research and other credits	**20,135**	11,951
Write down of investment	**2,171**	1,486
Accumulated depreciation/basis difference	**(25,978)**	(24,584)
Merger related basis difference	**(18,088)**	–
Other	**(63)**	(262)
Total non-current deferred tax assets (liabilities)	**7,787**	939
Valuation reserve for non-current deferred tax assets	**(7,787)**	(939)
Net deferred asset (liability)	**$ –**	$ –

The Company's overall tax rate differed from the statutory rate principally due to the non-recognition of the U.S. tax benefits on the domestic net operating losses, and tax rate differences on foreign transactions.

At March 31, 2003, the Company had recorded a valuation reserve for deferred tax assets of $18.7 million related to U.S. domestic operating losses, state operating losses and credits against U.S. and state tax established in accordance with the Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," as it is management's opinion that it is more likely than not that some portion of these benefits may not be realized. Of the valuation allowance, $5.8 million was recorded against equity to offset the tax benefit of employee stock options recorded in equity. Federal losses of approximately $72.9 million may expire in years 2022-2024, and state losses of approximately $89.9 million may expire in years 2009-2024 if unused. Federal credits of $14.4 million and state credits of $3.8 million may expire in years 2013-2024 and 2003-2008, respectively. Federal alternative minimum tax credits of $1.9 million will carry-forward indefinitely. Included in the amounts above are certain net operating losses (NOLs) and other tax attribute assets acquired in conjunction with the close of the Resonext merger. The utilization of acquired assets may be subject to certain annual limitations as required under Internal Revenue Code Section 382.

The Company is in the process of expanding into international jurisdictions, and it is anticipated that such expansion and investments abroad will continue. Each endeavor may expose the Company to taxation in multiple foreign jurisdictions. It is management's opinion that upon commencement of foreign operations, any future foreign undistributed earnings will either be permanently reinvested or such future distributions, if any, will not result in incremental U.S. taxes. Accordingly, no provision for U.S. federal and state income taxes has been made thereon. It is not practical to estimate the additional tax that would be incurred, if any, if the permanently reinvested earnings were repatriated.

A reconciliation of the (provision for) and benefit from income taxes to income tax expense computed by applying the statutory federal income tax rate to pre-tax (loss) income for the fiscal years ended March 31, 2003, 2002 and 2001 is as follows (dollars in thousands):

Year Ended March 31,	*2003* Amount	*2003* Percentage	*2002* Amount	*2002* Percentage	*2001* Amount	*2001* Percentage
Income tax benefit (expense) at statutory federal rate	**$ 3,180**	**(35.00)%**	$ 9,595	(35.00)%	$ (18,358)	(35.00)%
Decrease (increase) resulting from:						
State tax, net of federal benefit	**1,454**	**(16.01)**	419	(1.54)	(920)	(1.75)
Research and development credits	**4,105**	**(45.19)**	4,722	(17.23)	1,221	2.33
Foreign Sales Corporation benefit	**–**	**–**	–	–	632	1.20
Foreign tax expense	**(250)**	**2.75**	(73)	.27	–	–
Change in reserve for deferred tax assets	**(5,889)**	**64.82**	(8,520)	31.08	–	–
In-process research and development	**(3,675)**	**40.45**	–	–	–	–
Other	**825**	**(9.07)**	686	(2.49)	(10)	(0.02)
	$ (250)	**2.75%**	$ 6,829	(24.91)%	$ (17,435)	(33.24)%

12. NET (LOSS) INCOME PER SHARE

The following table sets forth the computation of basic and diluted net (loss) income per share (in thousands, except per share data):

Year Ended March 31,	*2003*	*2002*	*2001*
Numerator for basic and diluted net (loss) income per share:			
Net (loss) income	**$ (9,335)**	$ (20,584)	$ 34,974
Denominator:			
Denominator for basic net (loss) income per share – weighted average shares	**172,706**	165,827	161,820
Effect of dilutive securities:			
Employee stock options	**–**	–	11,396
Denominator for diluted net (loss) income per share – adjusted weighted average shares and assumed conversions	**172,706**	165,827	173,216
Basic net (loss) income per share	**$ (0.05)**	$ (0.12)	$ 0.22
Diluted net (loss) income per share	**$ (0.05)**	$ (0.12)	$ 0.20

Options to purchase 12.6 million shares, 3.4 million shares and 2.0 million shares of common stock were outstanding during fiscal 2003, 2002 and 2001, respectively, but were not included in the computation of diluted net (loss) income per share for the fiscal years ended March 31, 2003, 2002 and 2001, respectively, because the exercise price of the options was greater than the average market price of the common shares. The computation of diluted net (loss) income per share for the years ended March 31, 2003, 2002 and 2001 similarly did not assume the conversion of the 3.75% convertible subordinated notes due 2005 that were issued in August 2000 because the inclusion would be anti-dilutive.

13. 401(K) PLAN

Each employee is eligible to participate in the Company's fully qualified 401(k) plan after three months of service. An employee may invest a maximum of 15% of pretax earnings in the plan. Employer contributions to the plan are made at the discretion of the Company and its Board of Directors. An employee is fully vested in the employer contribution portion of the plan after completion of five continuous years of service. The Company contributed $1.4 million, $1.2 million and $0.9 million to the plan during fiscal years 2003, 2002 and 2001, respectively.

14. EMPLOYEE STOCK PURCHASE PLAN

In April 1997, the Company adopted its Employee Stock Purchase Plan (ESPP), which qualifies as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code. All regular full-time employees of the Company (including officers) and all other employees who meet the eligibility requirements of the plan may participate in the ESPP. The ESPP provides eligible employees an opportunity to acquire the Company's common stock at 85% of the lower of the closing price per share of the Company's common stock on the first or last day of each six-month purchase period. An aggregate of 4.0 million shares of common stock has been reserved for offering under the ESPP and are available for purchase thereunder, subject to anti-dilution adjustments in the event of certain changes in the capital structure of the Company. The Company makes no cash contributions to the ESPP, but bears the expenses of its administration. During fiscal years 2003, 2002 and 2001, respectively, 611,898 shares, 268,738 shares, and 179,488 shares were purchased under the ESPP.

15. STOCK-BASED AWARDS

SUMMARY OF STOCK OPTION PLANS

1992 Stock Option Plan

The Company's 1992 Stock Option Plan (the 1992 Option Plan) was adopted by the Company and its shareholders in February 1992. The 1992 Option Plan provided for the granting of both incentive and nonqualified options to purchase common stock to key employees, non-employee directors and advisors and consultants in the service of the Company. The 1992 Option Plan was terminated following the Company's initial public offering in June 1997, at which time options to purchase 8.7 million shares had been granted.

1997 Key Employees' Stock Option Plan

In April 1997, the Company and its shareholders adopted the 1997 Key Employees' Stock Option Plan (the 1997 Option Plan), which provides for the granting of options to purchase common stock to key employees and independent contractors in the service of the Company. The 1997 Option Plan permits the granting of both incentive options and nonqualified options. The aggregate number of shares of common stock that may be issued pursuant to options granted under the 1997 Option Plan may not exceed 10.4 million shares, subject to adjustment in the event of certain events affecting the Company's capitalization.

Directors' Option Plan

In April 1997, the Company and its shareholders adopted the Non-Employee Directors' Stock Option Plan. Under the terms of this plan, directors who are not employees of the Company are entitled to receive options to acquire shares of common stock. An aggregate of 1.6 million shares of common stock have been reserved for issuance under this plan, subject to adjustment for certain events affecting the Company's capitalization. During fiscal years 2003, 2002 and 2001, respectively, the Company issued options to purchase 100,000, 60,000 and 80,000 shares, respectively, to eligible participants under the plan. In addition, during fiscal 1999, the Company granted options to purchase 120,000 shares to certain directors outside of the Non-Employee Directors' Stock Option Plan.

1999 Stock Incentive Plan

The 1999 Stock Incentive Plan (the 1999 Stock Plan), which the Company's shareholders approved at the 1999 annual meeting of shareholders, provides for the issuance of a maximum of 16.0 million shares of common stock pursuant to awards granted thereunder. The maximum number of shares of common stock that may be issued under the plan pursuant to grant of restricted awards shall not exceed 2.0 million shares. The number of shares reserved for issuance under the 1999 Stock Plan and the terms of awards may be adjusted upon certain events affecting the Company's capitalization. No awards may be granted under the 1999 Stock Plan after June 30, 2009. The Company recorded deferred compensation of $2.0 million, $7.0 million, and $7.9 million in fiscal 2003, 2002 and 2001, respectively, associated with the awarding of 414,700, 524,900 and 557,628 shares, respectively, of non-vested restricted stock to key employees at no cost under the 1999 Stock Plan. This deferred compensation is being amortized to expense over the vesting periods of such restricted stock awards, up to four years. During fiscal 2003, 2002 and 2001, 225,578, 113,574 and 49,998 shares of these restricted stock awards were exercised, respectively.

RF Nitro Communications, Inc. 2001 Stock Incentive Plan

In connection with its merger with RF Nitro, the Company assumed the RF Nitro Communications, Inc. 2001 Stock Incentive Plan. This plan provides for the grant of options to purchase common stock to key employees, non-employee directors and consultants in the service of the Company. This plan permits the grant of incentive, nonqualified and restricted stock awards. The aggregate number of shares reserved for issuance under the plan is 52,123. The terms of awards may be adjusted upon certain events affecting the Company's capitalization. No awards may be granted under the plan after May 29, 2011. The Company recorded deferred compensation of $0.3 million in fiscal 2002 associated with the awarding of 17,356 shares of non-vested restricted stock to key employees at no cost under this plan. During each of fiscal 2003 and 2002, 3,471 shares of these restricted stock awards were exercised.

Resonext Communications, Inc. 1999 Stock Option Plan

In connection with its merger with Resonext, the Company assumed the Resonext 1999 Stock Option Plan. This plan provides for the grant of options to purchase common stock to key employees, non-employee directors and consultants in the service of the Company. This plan permits the grant of incentive, and nonqualified options, however does not allow for restricted grants. Stock purchase rights may also be granted under the plan. The aggregate number of shares reserved for issuance under the plan is 1,370,301 shares. The terms of awards may be adjusted upon certain events affecting the Company's capitalization. No awards may be granted under the plan after November 23, 2009.

A summary of activity of the Company's directors and employee stock option formal plans follows (in thousands, except per share data):

	Number of Shares: Available for Grant	Number of Shares: Options Outstanding	Option Prices: Per Share Range
March 31, 2000	12,485	16,163	$ 0.02 - $ 87.50
Granted	(4,684)	4,684	11.13 - 80.13
Exercised	–	(2,762)	0.02 - 24.84
Canceled	421	(421)	0.11 - 87.50
March 31, 2001	8,222	17,664	$ 0.03 - $ 87.50
Reserved	34	–	– –
Granted	(4,027)	4,027	2.16 - 34.03
Exercised	–	(2,501)	0.03 - 25.88
Canceled	576	(576)	0.15 - 80.13
March 31, 2002	4,805	18,614	$ 0.03 - $ 87.50
Reserved	1,371	–	– –
Granted	(6,166)	6,166	0.52 - 18.98
Exercised	–	(2,645)	0.03 - 14.25
Canceled	1,121	(1,121)	0.52 - 80.13
Repurchased	57	–	0.52 - 2.58
March 31, 2003	**1,188**	**21,014**	**$ 0.03 - $ 87.50**

OUTSTANDING AND EXERCISABLE OPTIONS

Exercise prices for options outstanding as of March 31, 2003, ranged from $0.03 to $87.50. The weighted average remaining contractual life of outstanding options was 7.4 years. The weighted average exercise price of outstanding options at March 31, 2003 was $15.10. At March 31, 2003, 2002 and 2001, awards to purchase 8.5 million, 5.8 million and 4.1 million shares of common stock were exercisable, respectively.

The following table summarizes in more detail information regarding the Company's directors and employees stock option formal plans outstanding at March 31, 2003 (in thousands, except per share and award life data):

	Outstanding Options			Exercisable Options	
Range of Exercise Prices	*Number Of Options*	*Weighted-Average Exercise Price*	*Weighted-Average Remaining Contractual Life*	*Number Of Options*	*Weighted-Average Exercise Price*
$ 0.03 - 8.75	7,981	$ 4.31	7.5 years	2,990	$ 2.36
8.75 - 17.50	7,864	14.41	7.5	2,871	13.79
17.50 - 26.25	2,894	21.80	7.0	1,496	21.88
26.25 - 35.00	531	32.01	7.1	293	32.25
35.00 - 43.75	604	38.50	7.0	312	38.32
43.75 - 52.50	690	49.03	6.4	333	49.02
52.50 - 61.25	102	59.25	6.9	51	58.91
61.25 - 70.00	116	64.40	7.1	53	64.58
70.00 - 78.75	44	72.50	7.0	26	72.50
78.75 - 87.50	188	82.80	7.0	113	82.79
	21,014	$ 15.10	7.4 years	8,538	$ 15.79

16. SHAREHOLDER RIGHTS PLAN

On August 10, 2001, the Company's Board of Directors adopted a shareholder rights plan, pursuant to which un-certificated stock purchase rights were distributed to shareholders at a rate of one right for each share of common stock held of record as of August 30, 2001. The rights plan is designed to enhance the Board's ability to prevent an acquirer from depriving shareholders of the long-term value of their investment and to protect shareholders against attempts to acquire the Company by means of unfair or abusive takeover tactics. The rights become exercisable based upon certain limited conditions related to acquisitions of stock, tender offers and certain business combination transactions involving the Company. The rights plan was amended in May 2003 to provide for a periodic review, at least once every three years, by the Governance and Nominating Committee of the Board to evaluate whether the rights plan is in the best interest of the Company and its shareholders.

17. COMMON STOCK RESERVED FOR FUTURE ISSUANCE

At March 31, 2003, the Company had reserved a total of 38.0 million of its authorized 500.0 million shares of common stock for future issuance as follows (in thousands):

Outstanding stock options under directors and employees stock option formal plans	21,014
Possible future issuance under Company stock option plans	1,188
Outstanding directors' options outside of non-employee directors' option plan	93
Employee stock purchase plan	2,487
Restricted stock-based awards granted	1,333
Possible future issuance of restricted stock-based awards	289
Possible future issuance pursuant to convertible subordinated notes	11,620
Total shares reserved	38,024

18. RELATED PARTY TRANSACTIONS

The Company and Northrop Grumman Space Technology sector (NGST), formerly known as TRW Space & Electronics, Inc. (TRW) entered into a license arrangement in June 1996 whereby TRW granted the Company a worldwide, perpetual, royalty-free license for GaAs HBT commercial wireless applications in exchange for shares of the Company's stock. In connection with the expansion of the license arrangements with TRW for use of the GaAs HBT technology to manufacture products for commercial coaxial and other non-fiber wire applications in November 1999, the Company granted TRW two warrants for the purchase of shares of common stock. The first warrant was for 500,000 shares of common stock which became exercisable on December 31, 2000 and was exercised on January 3, 2001. The second warrant was for 1.0 million shares of common stock and was exercisable between December 31, 2000 and December 31, 2001 if the Company achieved certain annualized sales milestones. The performance conditions were not satisfied, and the warrant was forfeited. In accordance with EITF 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" and EITF 00-8 "Accounting by a Grantee for an Equity Instrument to Be Received in Conjunction with Providing Goods or Services," the unamortized intangible asset value and corresponding equity value as of December 31, 2001 was removed from the Company's consolidated financial statements as of March 31, 2002. During the fourth quarter of fiscal 2002, TRW sold its remaining shares in the Company and was no longer a principal owner.

19. COMMITMENTS AND CONTINGENCIES

JAZZ SEMICONDUCTOR STRATEGIC RELATIONSHIP

The Company entered into a strategic relationship with Jazz. Under the arrangement, the Company obtained a committed, lower cost source of supply for wafers fabricated utilizing Jazz's silicon manufacturing processes. In addition, the Company will collaborate with Jazz on joint process development and the optimization of these processes for fabrication of next-generation silicon RFICs. As part of its strategic relationship with Jazz, the Company agreed to invest approximately $60.0 million in Jazz, $30.0 million of which was invested in October 2002 and $30.0 million of which is payable in the third quarter of fiscal 2004. The $30.0 million payable is recorded in other current liabilities net of the effective discount rate of one year LIBOR plus 1.0%.

STRATEGIC ALLIANCE WITH AGERE

The Company entered into a strategic alliance with Agere Systems Inc. (Agere) in May 2001, pursuant to which the Company agreed to invest approximately $58.0 million over two years to upgrade manufacturing clean room space and purchase semiconductor manufacturing equipment to be deployed within Agere's Orlando, Florida manufacturing facility, of which $16.4 million had been invested as of March 31, 2003. On January 23, 2002, Agere announced that it was seeking a buyer for its Orlando wafer fabrication operation. The Company currently does not intend to make any additional investments in equipment under this arrangement. The Company recently reopened discussions with Agere in order to resolve all remaining issues between the parties under the alliance documents, including the refund to the Company of amounts previously invested by it under its agreements with Agere. These discussions are at an early stage and the Company currently cannot predict the outcome or financial or other effects of these discussions. Due to the pending sale, the Company classified the assets as "assets held for sale" during fiscal 2002. The plan for sale did not occur in fiscal 2003, therefore, the Company reclassified the "assets held for sale" to "assets held and used" pursuant to FAS 144 and began depreciation of these assets in fiscal 2003.

LEGAL

The Company is involved in various legal proceedings and claims that have arisen in the ordinary course of its business that have not been fully adjudicated. These actions, when finally concluded and determined, will not, in the opinion of management, have a material adverse effect upon the consolidated financial position or results of operations of the Company.

20. GEOGRAPHIC INFORMATION

The consolidated financial statements include sales to customers by geographic region that are summarized as follows:

Year ended March 31,	*2003*	*2002*	*2001*
Sales:			
United States	**20%**	29%	48%
Asia	**54**	51	27
Europe	**18**	13	19
Central and South America	**7**	6	4
Canada	**<1**	<1	2
Other	**<1**	<1	<1

The consolidated financial statements include the following long-lived assets amounts related to operations of the Company by geographic region (in thousands):

March 31,	*2003*	*2002*
Long-lived assets:		
United States	**$ 297,728**	$ 219,151
Asia	**12,941**	1,370
Europe	**1,344**	1,158
Total long-lived assets	**$ 312,013**	$ 221,679

Sales, for geographic disclosure purposes, are based on the "bill to" address of the customer. The "bill to" address is not always an accurate representation of the location of final consumption of the Company's components by either the original equipment manufacturer (OEM) or the OEM's customer. Long-lived assets include property and equipment.

21. SUMMARY OF QUARTERLY RESULTS (UNAUDITED):

Fiscal 2003 Quarter (in thousands, except per share data)	*First*	*Second*	*Third*	*Fourth*
Revenue	$ 103,942	$ 119,735	$ 145,813	$ 138,329
Gross profit	41,438	45,997	54,426	40,790
Net income (loss)	2,349	6,485	(5,183)	(12,986)
Net income (loss) per share:				
Basic	$ 0.01	$ 0.04	$ (0.03)	$ (0.07)
Diluted	$ 0.01	$ 0.04	$ (0.03)	$ (0.07)

Fiscal 2002 Quarter (in thousands, except per share data)	*First*	*Second*	*Third*	*Fourth*
Revenue	$ 70,052	$ 98,271	$ 100,551	$ 100,434
Gross profit	4,151	36,369	38,893	40,930
Net (loss) income	(28,386)	1,532	3,501	2,769
Net (loss) income per share:				
Basic	$ (0.17)	$ 0.01	$ 0.02	$ 0.02
Diluted	$ (0.17)	$ 0.01	$ 0.02	$ 0.02

REPORT OF INDEPENDENT AUDITORS

BOARD OF DIRECTORS AND SHAREHOLDERS
RF MICRO DEVICES, INC. AND SUBSIDIARIES

We have audited the accompanying consolidated balance sheets of RF Micro Devices, Inc. and subsidiaries as of March 29, 2003 and March 30, 2002, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 29, 2003. 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 auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 RF Micro Devices, Inc. and subsidiaries at March 29, 2003 and March 30, 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 29, 2003, in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

Greensboro, North Carolina
April 16, 2003

OFFICERS AND DIRECTORS

CORPORATE OFFICERS

Robert A. Bruggeworth
President and Chief Executive Officer

William J. Pratt
Chief Technical Officer and Corporate Vice President

Jerry D. Neal
Executive Vice President of Marketing and Strategic Development

Powell T. Seymour
Corporate Vice President of Strategic Operations and Secretary

Eric Creviston
Corporate Vice President of Wireless Products

Gary J. Grant
Corporate Vice President of Quality Assurance

J. Forrest Moore
Corporate Vice President of Information Technology and
Chief Information Officer

William A. Priddy, Jr.
Chief Financial Officer and Corporate Vice President of Administration

Barry D. Church
Vice President and Corporate Controller

Suzanne B. Rudy
Vice President and Corporate Treasurer

BOARD OF DIRECTORS

Dr. Albert E. Paladino
Chairman of the Board and
Board Member of TranSwitch Corporation

Robert A. Bruggeworth
President and Chief Executive Officer

Daniel A. DiLeo
Principal, Dan DiLeo, LLC

Frederick J. Leonberger
Senior Vice President and
Chief Technology Officer of JDS Uniphase Corporation

David A. Norbury
Former Chief Executive Officer

William J. Pratt
Chief Technical Officer and Corporate Vice President

Erik H. van der Kaay
Chairman of Symmetricom, Inc.

Walter H. Wilkinson, Jr.
Founder and General Partner of Kitty Hawk Capital, Inc.

This report contains forward-looking statements that relate to RF Micro Devices' plans, objectives, estimates and goals. Words such as "expect," "anticipate," "intend," "plan," "project," "believe," and "estimate," and variations of these words and similar expressions, identify these forward-looking statements. RF Micro Devices' business is subject to numerous risks and uncertainties, including variability in quarterly operating results, the rate of growth and development of wireless markets, risks associated with the operation of wafer fabrication, molecular beam epitaxy and test and tape and reel facilities and the Company's conversion from four inch to six inch wafer manufacturing, the Company's ability to manage rapid growth and to attract and retain skilled personnel, variability in production yields, its ability to control and reduce costs and improve gross margins on highly integrated products, dependence on a limited number of customers and dependence on third parties. These and other risks and uncertainties, which are described in more detail in RF Micro Devices' most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission, could cause actual results and developments to be materially different from those expressed or implied by any of these forward-looking statements.

CORPORATE INFORMATION

CORPORATE HEADQUARTERS

7628 Thorndike Road
Greensboro, NC 27409-9421

STOCK TRANSFER AGENT AND REGISTRAR

Wachovia Bank, N.A.
Shareholder Services Group
1525 West W.T. Harris Boulevard, 3C3
Charlotte, NC 28288-1153
Phone: (704) 590-0394 or (800) 829-8432

INDEPENDENT AUDITORS

Ernst & Young LLP
3200 Beechleaf Court
Suite 700
Raleigh, NC 27604-1063

ANNUAL MEETING

The Annual Meeting of Shareholders will be held on July 22, 2003 at 10:00 a.m. EDT at the Greensboro-High Point Airport Marriott. A notice of the meeting, proxy and proxy statement will be mailed on or about June 17, 2003, at which time proxies will be solicited by the Board of Directors.

SEC FORM 10-K

A copy of our fiscal 2003 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, is available without charge upon written request, directed to:

Investor Relations Department
RF Micro Devices, Inc.
7628 Thorndike Road
Greensboro, NC 27409-9421
336-664-1233

PRICE RANGE OF COMMON STOCK

Our common stock trades on The Nasdaq Stock Market® under the symbol RFMD. The table below sets forth the high and low trading prices of our common stock for the quarterly periods during the fiscal years ended March 31, 2003 and March 31, 2002.

Fiscal 2003	**Hi**	**Lo**
First Quarter	$ 20.35	$ 6.44
Second Quarter	$ 9.55	$ 5.19
Third Quarter	$ 12.79	$ 5.60
Fourth Quarter	$ 8.57	$ 5.74

Fiscal 2002	**Hi**	**Lo**
First Quarter	$ 37.50	$ 8.75
Second Quarter	$ 32.53	$13.80
Third Quarter	$ 28.56	$13.40
Fourth Quarter	$ 23.40	$14.88

RFMD has never declared or paid cash dividends on its capital stock. We currently intend to retain our earnings for future growth and, therefore do not anticipate paying any cash dividends in the foreseeable future. Payment of future dividends, if any, will be at the discretion of our Board of Directors after taking into account various factors, including our financial condition, operating results, current and anticipated cash needs and plans for expansion.

Based on information obtained from our transfer agent, we believe the number of registered owners of our common stock was 1,974 at May 30, 2003. This number does not include beneficial owners, for whom shares are held in a "nominee" or "street" name. At May 30, 2003, we believe there were approximately 182,371 beneficial owners of our common stock.

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