

## **Q1 FY 2011 Conference Call Script**

### **OPERATOR:**

Ladies and Gentlemen, thank you for standing by.

Welcome to the Cirrus Logic first quarter fiscal year 2011 financial results conference call. At this time, all participants are in a listen-only mode. Later, we will open up the call for your questions. Instructions for queuing up will be provided at that time.

As a reminder, this conference call is being recorded for replay purposes.

I would now like to turn the conference call over to Mr. Thurman Case, chief financial officer.

Mr. Case, you may begin.

### **THURMAN CASE**

Thank you, and good morning. Joining me on today's call is Jason Rhode, Cirrus Logic's president and chief executive officer.

Before we begin, I would like to remind you that during the course of this conference call, we will make projections and other forward-looking statements regarding, among other things, estimates for second quarter revenues, gross margin levels, combined R&D and SG&A expenses, amortization of acquired intangibles and share-based compensation expense, as well as other estimates and assumptions regarding long term gross margin and operating profit goals, future demand for products, and expected revenue and market share growth. These statements are predictions that are subject to risks and uncertainties that may cause actual results to differ materially from projections. By providing this information, the company undertakes no obligation to update or revise any projections or forward-looking statements, whether as a result of new developments or otherwise.

Please refer to the press release issued today, which is available on the Cirrus Logic website, the latest Form 10-K and 10-Q, as well as other corporate filings made with the

Securities and Exchange Commission, for additional discussion of risk factors that could cause actual results to differ materially from current expectations.

All financial numbers are prepared, unless noted, in accordance with generally accepted accounting principles.

A reconciliation of the non-GAAP financial information provided in today's call to the most directly comparable GAAP information is included in today's press release and on the company's web site in the Investors section. Non-GAAP financial information is not meant as a substitute for GAAP results, but is included because management believes such information is useful to investors for informational and comparative purposes. In addition, management uses certain non-GAAP financial information internally to evaluate and manage operations. As a note, the non-GAAP financial information the company uses may differ from that used by other companies. These non-GAAP measures should be considered in addition to, and not as a substitute for, the results prepared in accordance with GAAP.

I'd like to now discuss our results...

**(Net Sales)**

Net revenue in the June quarter was \$81.9 million, up approximately 118% from \$37.5 million in the June quarter last year, and up 31% from \$62.6 million in the previous quarter.

Audio Products contributed \$54 million in revenue for the June quarter. This product group includes components used in a variety of devices such as home theater systems, portable media players, smartphones, media-centric computers, and car audio amplifiers. As you see in the tables we included with our press release today, quarterly sales of Audio Products grew 118% year-over-year, driven by a continued increase in portable audio and strength in general home audio products.

Sales of Energy Products were \$27.9 million for the June quarter. This product group includes components designed for a variety of energy measurement and energy control applications. Revenue for our Energy Products was up 119% on a year-over-year basis, due mainly to growing demand for both power meter and energy exploration products, as well as renewed strength in some of our baseline energy businesses such as high power, and general industrial products.

Historical revenue breakdowns by product category are available on our website.

**(Gross Margin)**

Gross margin for the June quarter was 57%, up from 56% in the previous quarter, and up from 52% in the quarter a year ago. This excellent result is due to both the outstanding efforts of our supply chain team to deliver improved manufacturing efficiencies, and a shift in revenue mix within our Energy business to higher margin products such as energy exploration.

**(OPEX and Net Income)**

Total GAAP operating expenses for the June quarter were \$29.2 million, compared to \$27.0 million in the previous quarter. Non-GAAP operating expenses were approximately \$26.6 million for the June quarter, compared to \$24.9 million for the March quarter.

The increase in non-GAAP operating expenses is primarily due to additional overall employee related expenses. We ended the current quarter with 525 employees, up from 505 at the end of March.

Income from operations was \$17.5 million, or 21%, on a GAAP basis, and \$20.2 million, or 25%, on a non-GAAP basis.

GAAP net income for the quarter came in at \$17.6 million, or \$0.25 per share based on 70.8 million diluted shares. In the same quarter a year ago, we reported GAAP net income of \$221,000, or \$0.00 per share based on 65.3 million diluted shares.

On a non-GAAP basis, net income for the quarter was approximately \$20.3 million, or \$0.29 per diluted share. In the June quarter a year ago, we reported a non-GAAP net loss of \$800,000 or a loss of \$0.01 per diluted share.

We experienced an increase in our diluted share count this past quarter largely due to the impact that the rising stock price had on previously granted options.

I'm quite pleased with our quarterly results as they demonstrate that we are delivering strong earnings from our R&D investments. It's interesting to note that earnings growth has accelerated to the point where our non-GAAP eps this past quarter exceed non-GAAP eps for all of fiscal year 2009.

#### **(Balance Sheet Accounts – Assets)**

Moving to our Balance Sheet --- We ended the June quarter with \$34.5 million in net receivables, up from \$24 million at the end of the March quarter. Our average days sales outstanding remained consistent with previous quarters.

Ending net inventory increased to \$42.4 million from \$35.4 million at the end of the March quarter, with net inventory turns of 3.3, as we positioned ourselves to support our current backlog and projections for production ramps of new design wins.

#### **(Cash Flow Metrics)**

We ended the quarter with \$161.7 million in total cash and marketable securities, an increase of \$20.1 million from \$141.6 million at the end of March.

Cash flow from operations was \$11.9 million for the quarter.

Capital expenditures for the June quarter were \$4.0 million, up from \$1.3 million in the March quarter as we invested in capacity expansion with our manufacturing partners, as well as technology enhancements, while depreciation and amortization expense for the quarter was \$1.9 million.

I'd like to now turn the call over to Jason to discuss our business operations and guidance for the upcoming September quarter.

## **JASON RHODE**

Thank you, Thurman.

As I'm sure you've determined from our most recent financial performance, Cirrus Logic is executing at a very high level. All of our key financial metrics clearly demonstrate we are making progress on our vision of becoming the first choice in signal processing components for the world's best companies. Our revenue in Q1 grew nearly 120 percent year-over-year, which as you might suspect, is well above our corporate model. Gross margin exceeded guidance due to outstanding work from our supply chain team, coupled with increased contributions from some of our higher-margin energy product lines, such as seismic. With non-GAAP operating margin of 25% and earnings of \$.29 per share, the company is executing to our strategy and gaining momentum.

Revenue from portable audio products remains the driver of overall company growth, but I'm pleased that we experienced significant growth contributions in Q1 from numerous audio and energy product lines. Demand for our energy measurement and energy exploration products was strong, with solid growth from our Apex Precision Power line of products for industrial applications, and an overall strengthening of demand in home audio products, such

as audio DSPs and converters. Over the past several quarters, we have been hiring great engineers to help ramp up for long-term demand

Let me give you some highlights from the Audio side of our business. As you know, our strategy has been to target growing markets, such as portable media players and smartphones, and develop great relationships with Tier 1 customers in those markets. As a case in point, the success we've had in supporting our largest customer did not happen by accident, nor did it happen overnight. It is the result of several years of cultivating a strong relationship focused on solving difficult engineering challenges that they face. Four years ago, after we showed them some new portable audio technology, they gave us a list of additional problems to solve, and our team delivered. This type of focus has allowed us to solve key audio-related challenges, and we've developed a portfolio of custom parts for them that are shipping in every one of their major product lines.

We've applied this approach with several customers in the audio market, such as the new custom IC for a Tier 1 account in Japan for portable audio applications, which began shipping in the June quarter. Also, in the automotive area of our business, we are sampling a new custom IC chipset for a leading manufacturer of audio amplifiers, representing a great growth opportunity due to the high dollar content per unit. It's satisfying to know that our most important customers are able to differentiate their products in part by the type of innovative ICs that we're developing.

Q1 audio revenue was strong on both a quarter-over-quarter and year-over-year basis. While this growth was driven by continued success with our number one customer, we also saw strong growth from a wide range of home audio products such as soundbars, home theater systems, and Blu-ray Disc players.

Longer term, we continue to focus on growth by going full speed in developing new products for audio applications. Recently we introduced a new D/A converter for home audio applications, and we're aggressively targeting long-term growth from smartphone applications. In June, we introduced our first general market smart audio codec, the CS42L73,

which will enable future devices to use less power and extend battery life. As we mentioned on our April earnings call, the CS42L73 can currently be found as part of a 3G reference design from Infineon. We also recently introduced the CS35L01 family of hybrid Class D audio amplifiers for mobile communication and other portable applications. This chip focuses on reducing system power while producing up to 3 watts of high-quality audio through the phone's speaker. Overall, we're excited about expanding into new generations of smartphones in 2011, as we are currently engaged with new customers for both of these new products, as well as several products currently in the development pipeline. In soundbars, we continue to expand our share of this market by winning several new designs with additional Tier 1 home theater brands.

Looking now at our Energy business, we saw improvements in a variety of our product lines throughout the quarter. Our current investments in the Energy product lines are focused on energy measurement and the energy control areas such as power factor correction, lighting, and motor control. We have been in the energy measurement business for many years. The recent push for smart grid enhancements combined with our focus on providing leading OEMs, such as Itron, with outstanding metrology ICs has created a lot of new opportunities worldwide for digital energy meters and other energy monitoring applications.

Our traditional industrial business also saw benefits from improving economic conditions, and in particular revenue from our energy exploration products continued to grow sequentially. Forecasting the seismic business is challenging, but our current backlog indicates that this business will experience strong sequential growth and be a more meaningful contributor to revenue and gross margin for Q2. In addition, revenue from our Apex Precision Power line of products grew meaningfully in Q1, driven by a rebound in demand in numerous industrial markets, such as semiconductor test equipment.

Longer term, we're excited about new programs that are launching from our energy product lines. In June, we introduced our first digital power factor correction controller ICs, which target both power supplies and lighting ballast systems. These chips bring a highly innovative digital approach to solving energy efficiency and system design challenges. We are

currently sampling to leading customers in these markets – which I’m pleased to say have validated our digital approach to Power Factor Correction – and we’re gathering a great deal of customer feedback that will drive our roadmap of new derivative products and pave the way for significant long-term growth opportunities. There are very relevant parallels between our approach to enter the PFC market with the successful approach we took in portable audio, and we’re anticipating that our entrance into this market in FY ’11 will translate into growing revenue opportunities starting in FY ’12.

As Thurman mentioned, we increased inventory levels substantially during Q1, just as we did in Q4 of FY ’10, in anticipation of continuing strong demand and upcoming new product ramps. The inventory build is largely comprised of our newer products for secure design wins and existing business and it enables us to keep up with our rapidly expanding demand for key products. We will continue to carefully manage our expenses going forward, even as we continue to aggressively, but selectively, hire the right talent to join our successful team.

We continue to put significant effort into hiring and retaining the best talent as we are already hard at work on new projects that will enable us to sustain our momentum. Our headcount growth over the past few quarters reflects the focus we are putting on hiring experienced engineering talent to staff our R&D projects. Our focus on creating a corporate culture that is both challenging and rewarding has allowed us to attract and retain outstanding talent, and we are proud of our inclusion and strong showings in numerous “Best Places to Work” surveys.

I’m excited that we are out-performing our business model for revenue growth, gross margins, and operating margins, and we will remain focused on growing revenue while keeping a sharp eye on where we are investing our dollars.

Looking forward to the second quarter of FY’11, we expect:

- Revenue to range between \$98 million and \$106 million

- Gross margins to remain between 56 percent and 58 percent
- Combined R&D and SG&A expenses to range between \$28 million and \$30 million, which include approximately \$1.7 million in share-based compensation and amortization of acquisition-related intangibles expenses.

So, on the heels of near 120-percent year-over-year revenue growth in Q1, we're forecasting continued strong growth in Q2 with revenue increasing by more than 75% over last year. Revenue from portable audio products remains the driver of overall company growth, and I'm very pleased with the relationship we have with our largest customers. Everyone at Cirrus knows that helping our existing customers succeed is job number one. We continue to hire great engineers to staff our key programs, and our team has done an outstanding job of delivering new products and design wins. Longer term we expect our new growth programs in power meter, smartphones, and PFC will help drive revenue growth and expand our customer base in audio and energy. Our goal is to continue to execute flawlessly as we work hard to meet the near-term revenue growth opportunities, even as we focus our efforts to develop new products to drive growth in FY '12 and beyond.

Operator, we are now ready to take questions...

### **(Q&A Session)**

#### **JASON RHODE**

Thank you, Operator. I would like to address a question that was sent to our investor relations department recently. Specifically, the investor noticed a position available for a switching power supply expert on our website and asked us to expand on that business if possible.

Before we signoff, I'd like to highlight that if you would like a more in-depth discussion on the growth areas we discussed today and the company overall, we have a voice annotated investor presentation on our website that is that will provide more detail on these areas.

Thank you for joining us on the call today.