

Q4 FY '09 Conference Call Script

OPERATOR:

Ladies and Gentlemen, thank you for standing by.

Welcome to the Cirrus Logic fourth quarter fiscal year 2009 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 afternoon. Joining me on today's call is Jason Rhode, Cirrus Logic's president and chief executive officer.

Before we begin, you are reminded that during the course of this conference call, we will make projections and other forward-looking statements regarding, among other things, our estimates for our first quarter fiscal year 2010 revenues, gross margin levels, combined R&D and SG&A expenses, amortization of acquired intangibles and share-based compensation expense, as well as our estimates and assumptions regarding our future revenue growth, and market share growth. These statements are predictions that are subject to risks and uncertainties that may cause actual results to differ materially from our projections. By providing this information, we undertake no obligation to update or revise any projections or forward-looking statements, whether as a result of new developments or otherwise.

Please refer to our press release issued today, which is available on our Web site, our latest Form 10-K for the fiscal year ending March 29, 2008, as well as our other filings made with the Securities and Exchange Commission, for additional discussion of risk factors that could cause actual results to differ materially from our current expectations.

I also want to mention before we proceed that 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 our web site in the Investors section. Non-GAAP financial information is not meant as a substitute for GAAP results, but is included because we believe such information is useful to our investors for informational and comparative purposes. In addition, we use certain non-GAAP financial information internally to evaluate and manage our operations. As a note, the non-GAAP financial information we use 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 March quarter was \$33.5 million, down 25% from \$44.8 million in the quarter a year ago, and down approximately 24% from \$43.8 million in the December quarter.

Individually, sales of Audio Products contributed \$18.8 million in revenue, compared to \$22.3 million in the quarter a year ago, and down sequentially from \$25.9 million in revenue in the December quarter.

Energy Product sales generated \$14.7 million, down from \$22.5 million in the March quarter a year ago, and down sequentially from \$17.9 million in the December quarter.

While March quarter sales are typically down sequentially, revenue for the March quarter was further impacted by weak demand as a result of the current global economic recession.

Historical revenue breakdowns by product category are available on our Web site.

(Gross Margin)

Gross margin on a GAAP basis for the March quarter was 55%, which is unchanged from 55% in both the quarter a year ago and in the December quarter. Gross Margin a year ago was impacted by certain charges related to the closure of Caretta Integrated Circuits, a subsidiary based in Shanghai. Excluding these charges, gross margin a year ago on a non-GAAP basis was 57%. There is no material difference between the GAAP and non-GAAP gross margin in the third and fourth quarters of fiscal year 2009.

(OPEX and Net Income)

Total GAAP operating expenses for the March quarter were \$24.2 million, compared to \$22 million in the third quarter. GAAP operating expenses in the fourth quarter included a \$2.1 million charge associated with the impairment of certain intangible assets. Additionally, our GAAP operating expenses included stock-based compensation charges of \$1.1 million and amortization of acquisition-related intangible charges of approximately \$400 thousand, as well as certain one time legal expenses of approximately \$400 thousand, and \$100 thousand in charges related to a facilities accrual. Non-GAAP operating expenses, excluding these items, were approximately \$20 million for the quarter, compared to \$20.4 million in non-GAAP operating expenses during the December quarter.

The loss from operations on a GAAP basis was \$5.7 million. Excluding the charges noted above, the non-GAAP loss from operations was \$1.5 million.

We recorded a GAAP net loss for the quarter of \$7.8 million; a loss of \$0.12 per share, based on 65.2 million diluted shares. In the same quarter a year ago, we reported a net loss on a GAAP basis of \$13.7 million, or \$0.16 per share, based on 85.3 million diluted shares.

On a non-GAAP basis, which excludes the items noted above, as well as an additional charge of \$2.7 million related to the reduction of our deferred tax asset, we recorded a net loss for the quarter of \$900 thousand or \$0.01 per share. In the March quarter a year ago, we reported non-GAAP net income of \$5.2 million or \$0.06 per share.

(Employee Headcount)

Moving to our employee headcount, we ended the March quarter with 479 employees, up from 473 employees at the end of December. The additional hires reflect our view that the current economic situation represents a great opportunity for us to hire outstanding engineers.

(Balance Sheet Accounts – Assets)

Moving to our Balance Sheet --- We ended the March quarter with \$13.3 million in net receivables, down from \$15.6 million at the end of the December quarter. Our days sales outstanding remains consistent, and as we have stated before, we will continue to actively manage our credit risk.

Ending net inventory also decreased \$3.5 million, or 15%, in the March quarter to \$19.9 million.

(Cash Flow Metrics)

We ended the quarter with \$120.2 million in total cash and marketable securities, an increase of \$2.7 million from \$117.5 million at the end of December.

As you recall, last quarter a \$20 million stock repurchase program was approved. We have not completed any stock repurchases under this program to date.

Capital expenditures for the March quarter were \$2.3 million, compared to \$1.4 million in the December quarter. The increased expenditures are related to the purchase of certain computer-aided design tools, highlighting a continued investment in our engineering capabilities for strategic programs. Depreciation and amortization expense in the March quarter was \$2.1 million.

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

JASON RHODE

Thank you, Thurman.

FY2009 was a tough one for the semiconductor industry as a whole, and Cirrus certainly felt the impact of the recession along with the rest of the industry over the past two quarters. That said, I'm pleased with the progress we've made on initiatives that are under our control. We have a strong financial position, highlighted by a healthy balance sheet, with no debt. We continue to manage our operating expenses closely and more importantly, we remain committed to our vision of being the preferred supplier of analog and digital signal processing components for the audio and energy markets.

In FY '09 we significantly grew our market share in portable audio from 5 percent in FY '08 to approximately 15 percent in FY '09. Revenue from portable audio products was \$30 million, well beyond our initial target of \$20 million. In FY '10 we're looking forward to advancing our leadership in portable audio as we continue to serve tier 1 customers and expand into new markets such as smart phones.

Our success in portable audio, along with numerous key customer programs currently ramping into production, underscores our ability to identify exciting markets and execute a successful strategy to take market share. Our portable audio strategy serves as a blueprint for success in our energy control and audio DSP initiatives. We launched more new products in FY09 than any year in recent history, which together with upcoming launches of our new PFC

family, and our ultra powerful new audio DSP family are expected to drive continued growth in our revenue from new products.

We believe that these difficult financial times represent an excellent opportunity for us to grow our market share, and we remain committed to doing so.

(Energy Products)

Let me give you a brief update on our products, beginning with the Energy category. These products include integrated circuits designed for a variety of energy exploration, measurement and control applications. In the March quarter revenue came in at \$14.7 million, which is down by 35 percent compared to the March quarter a year ago. Q4 performance represents general weakness across our product lines due to the global economic recession. While we anticipate continued near term weak performance from our Energy products, longer term we are optimistic about our energy control strategic initiative that we expect to serve as a strong component of our overall company growth.

Demand for energy exploration products was especially impacted, and we anticipate continued weakness for the foreseeable future, due to the depressed state of global oil exploration.

In energy control products, I'm pleased to report that our SA306 motor control IC, which we introduced last Fall, received the top award in its category from the editors of the trade publication EDN magazine. Longer term, we're excited about kicking-off our first power factor correction, or PFC, chip. In the previous quarter, we discussed this chip's early promising laboratory results. This quarter, I'm pleased to report that we have been demonstrating our PFC to key potential customers, and the feedback has been even more positive than we anticipated. We estimate the current PFC market opportunity at about \$400M and growing. This is a market that has been traditionally dominated by analog solutions. We believe that we bring unique digital signal processing technology to this market that will enable more efficient, smaller power supply products that eliminate the need for numerous passive components. Additionally, our PFC maintains high efficiency across the full range of load, which is a key differentiating factor going forward in this market.

While economic conditions will continue to have an impact on near-term quarterly earnings, we view energy control as a key driver of our long-term growth opportunities.

(Audio)

Turning now to our Audio Products, which include integrated circuits that are used in a wide variety of consumer, portable, professional and automotive audio applications. Revenue from these products contributed \$18.8 million of our revenue for the March quarter, down 16 percent compared to the March quarter a year ago.

Revenue from portable audio products was a continued highlight this past quarter, and bookings for portable products continue to accelerate as key new design wins are ramping this quarter. We believe we will continue to grow market share in FY '10, as we are on track to break into smart phone applications, as well as other consumer applications such as camcorders and portable gaming devices.

Current economic conditions are causing market weakness across home and automotive audio product lines. Despite the weakness, this quarter we anticipate growing revenue in these audio products, driven by new revenue in new sockets. For example, several Blu-ray Disc players now feature Cirrus Logic ICs, and we continue to obtain design wins in the new soundbar market. In fact, several tier 1 soundbar customers such as Samsung and Vizio have new products that are available now on retail shelves -- and they're getting great reviews. Soundbars are an application in which we provide both mixed-signal converter ICs as well as audio processors. I'm also proud to announce that recently we taped out our first 65nm audio DSP, which when introduced later this year we expect will be the most powerful audio processor in the world for home and automotive audio applications.

With our strong portfolio of new products, this quarter we expect to buck general industry demand trends -- as well as our own recent historical Q4-Q1 demand patterns -- by delivering growing revenue from audio products.

(Guidance)

Now, let me review our guidance for the first quarter of fiscal year 2010. Our overall expectations are as follows:

- Revenue is expected to range between \$36 million and \$40 million;
- Gross margin is expected to be between 52 percent and 54 percent; and
- Combined R&D and SG&A expenses are expected to range between \$22 million and \$24 million, which include approximately \$2.0 million in share-based compensation and amortization of acquisition-related intangibles expenses.

While we continue to actively manage our supply chain costs, the sequential decline in our forecasted gross margin is due to product mix changes as we continue to see growth of new product revenue from our audio products. Relative to last quarter, our guidance of operating expenses during the first quarter includes more new product tapeouts, including our new 65nm audio DSP.

While global economic conditions remain challenging, Cirrus Logic continues to be positioned for long-term success. Revenue from new products such as portable audio continues to be the highlight for the company, and we are eagerly anticipating our first major venture into the high-volume energy control market through new PFC products. The fundamentals of our business remain sound -- we continue to have a strong balance sheet, outstanding engineering talent, a great lineup of new products, and some of the best customers in the world.

We are confident that our continued focus on core growth strategies puts us in a position to emerge from this economic uncertainty even stronger and we remain committed to our vision of being the preferred supplier of analog and digital signal processing components for the audio and energy markets.

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

(Q&A Session)

JASON RHODE

Thank you for all your questions and your interest in Cirrus Logic.

Thanks again for joining us on the call today.