Q1 FY '09 Conference Call Script

OPERATOR:

Ladies and Gentlemen, thank you for standing by.

Welcome to the Cirrus Logic first 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 second quarter fiscal year 2009 revenues, gross margin levels, operating expenses, amortization of acquired intangibles and share-based compensation expense, as well as our estimates and assumptions regarding our future revenue growth, and profitability. 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 at cirrus.com, 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 our financial statements 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.

(Net Sales)

Net revenue in the June quarter was $44 million, up 7% from $41.1 million in the quarter a year ago, and down slightly from $44.8 million in the March quarter. Shipments during the quarter were in line with our expectations, despite challenging market conditions. I would like to note that revenue during the quarter included approximately $700,000 in product shipments related to Caretta Integrated Circuits, which we closed during the fourth quarter of fiscal year 2008.

Individually, sales of Audio Products contributed $22 million in revenue, compared to $22.5 million a year ago, and down slightly from $22.3 million in the March quarter.

Industrial Product shipments generated $22 million, up from $18.6 million in the quarter a year ago, and down from $22.5 million in the March quarter.

Historical revenue breakdowns are also available on our Web site for these product categories.

We continue to have a diversified and deep customer base, with no OEM customers representing more than 10 percent of revenue, while one distributor, Avnet, represented approximately 33 percent of our revenue during the quarter.

(Gross Margin)

Gross margin for the June quarter was 56% compared to 59% a year ago and 55% in the March quarter.

(OPEX and Net Income)

Total GAAP operating expenses were $23.6 million, compared to $37.7 million for the previous quarter. Operating expenses during the quarter included approximately $1.5 million in stock based compensation expense, $350,000 in acquisition related amortization of intangibles, and $250,000 in facility-related charges. Non-GAAP operating expenses, excluding these items was $21.5 million for the quarter, a reduction of $1.2 million compared to $22.7 million in non-GAAP operating expenses during the March quarter. This expense reduction highlights our focus on driving overall operational expenses towards our long term model, while continuing to invest in strategic programs.

We reported GAAP net income for the quarter of $2.1 million, or $0.03 per share, based on 67.2 million diluted shares. Excluding the charges previously mentioned, non-GAAP net income for the quarter was $3.7 million or $0.06 per share.

(Other P&L line items)

Interest and other income for the first fiscal quarter was $1.1 million, down from $2.3 million in the previous quarter. The decrease is due primarily to a lower cash balance as a result of our stock buyback program.

(Employee Headcount)

We ended the June quarter with 472 employees compared to 473 at the end of the March quarter.

(Balance Sheet Accounts – Assets)

Looking at our Balance Sheet --- We ended the June quarter with $21.6 million in net receivables, down slightly from $22.7 million at the end of the March quarter.

Ending net inventory increased by $1.5 million in the June quarter to $24 million, as we ramped inventory to support Q2 backlog.

(Cash Flow Metrics)

Capital expenditures for the June quarter were $600,000 compared to $2.4 million in the March quarter. Depreciation and amortization expense in the June quarter was $2.1 million.

We ended the quarter with $103 million in total cash and marketable securities, a decrease of $84 million from $187 million at the end of March.

The cash decrease this quarter was due mainly to the execution and completion of our stock buyback program. During the quarter, we repurchased and retired approximately 11.2 million shares at a total cost of $78.9 million. Total cash used in the first fiscal quarter related to this program was $87.2 million, which includes approximately $8.3 million that was payable as of the end of fiscal year 2008.

We expect that the nearly 30% reduction in our outstanding share count due to the completion of the buyback program will enhance long term shareholder value and add to our earnings per share going forward. We expect our average outstanding share count to be approximately 66 million shares going forward. We continue to generate cash on a quarterly basis, and we believe that we are well capitalized to continue investing in our strategic programs.

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

JASON RHODE

Thank you, Thurman.

I'm pleased with our performance in the June quarter. As Thurman noted, we grew revenue on a year-over-year basis and we continue to manage operating expenses toward our long-term model. Q1 results highlight our first step in improving our expected financial performance for the remainder of the year. We foresee accelerated revenue growth, even in the midst of challenging market conditions. This growth is being fueled by strong demand and market share gains for our line of portable audio products, which has raised our expectations above $50 million in revenue for next quarter for the first time in several years.

We also continue to make progress on several critical programs that are key to our long-term success. Operationally, we have introduced a new sales management tool designed to improve our ability to drive the sales channel, we strengthened our supply chain organization with new leadership, and we successfully reached volume production of ultra small wafer level chip scale packaging for a new line of portable audio ICs. We've also made significant strides in Japan, including new hires for key positions as well as design wins with tier 1 customers for our new line of audio clocking chips.

We are excited about our outlook for the second half of this year. We have confidence in our plan, and are committed to stay focused as we continue to invest in strategic programs that will drive future growth.

With the return to meaningful growth and a strong focus on managing expenses, we continue to make progress toward our long-term goals, including the financial goal of 15 percent year-over-year revenue growth and 20 percent operating margins.

(Industrial Products)

Let me give you a brief update on our products, beginning with the Industrial category. These products include integrated circuits designed for a variety of utility metering, high power, precision measurement, energy exploration, and communications applications, as well as our line of ARM processors. At this point, our primary focus is on the energy-related products within this category. Revenue from industrial products in the June quarter came in at $22 million, which is up by nearly 18 percent compared to the June quarter a year ago.

Revenue from industrial products continues to provide a stable foundation for the company's bottom line while contributing strong gross margins. We began volume shipments to Itron in the June quarter, and we continue to achieve design wins with key energy measurement customers. We're also excited about the great customer feedback we've received from several energy measurement seminars that we recently hosted in China.

In the next few months we have an exciting lineup of public product launches for key energy measurement and high-power applications. Longer term we continue to invest in other energy-related applications in which our analog and digital signal processing solutions will provide value to customers and drive long-term growth.

(Audio)

Turning now to our Audio Products, components in this category include data converters, Class D amplification products, audio processors and interface circuits -- products that are used in a wide variety of consumer, portable, professional and automotive audio applications. This product category contributed $22 million of our revenue for the June quarter, down slightly compared to the June quarter a year ago.

Revenue from our line of portable products is serving as the engine for overall company revenue growth during the second half of this year, as we take market share in portable applications. We continue to win tier 1 and tier 2 customers in portable media player applications in multiple regions, and we are expanding this base to include applications such as portable gaming and navigation devices. As portable products become a more significant contributor to our overall revenue, going forward you can expect greater seasonality, as products in this category typically have much stronger demand in our second and third fiscal quarters.

Revenue from products used in automotive applications remains generally solid despite tough market conditions for the automotive industry in general, and a growing base of automotive design wins gives us confidence in this longer term investment. Additionally, we are beginning to see solid demand for our new line of clocking products we introduced late last year.

We remain optimistic about the opportunity for growth in our new audio DSP products, and we have introduced new easy to use, graphical programming tools that are being adopted by tier 1 customers, allowing them to write their own code on Cirrus Logic DSPs. These new tools give us an improved competitive position to gain new customers and increase market share.

Overall, in spite of a relatively weak market this year, we are growing our revenue in audio products, driven by strong demand from our line of portable products. This fall we plan to introduce several new products across a wide variety of applications that we expect will continue to drive long-term revenue opportunities.

(Guidance)

Now, let me review our guidance for the second quarter of fiscal year 2009. Our overall expectations are as follows:

- Revenue is expected to range between $50 million and $54 million;
- Gross margin is expected to be between 53 percent and 55 percent; and
- Combined R&D and SG&A expenses are expected to range between $23 million and $25 million, which include approximately $2.0 million in share-based compensation and amortization of acquisition-related intangibles expenses.

To recap, we're excited about our outlook for meaningful revenue growth and operating margin improvements, driven by strong demand for our new products. We feel that our ability to take market share in portable applications will help us maintain growth even though the overall consumer market is somewhat soft. While the margin for portable products is below the corporate average, we believe that gross margins for the company will remain around 55% in the long term. We are making great progress toward our long term target of 20% operating margins, and we're excited about our outlook for significant revenue growth this year.

And now let's take your questions…

(Q&A Session)

JASON RHODE

Thank you for all your questions and your interest in Cirrus Logic. We are looking forward to a strong second quarter and are excited about the opportunities in front of us.

Thank you once again for participating in the call.