

Q2 FY '09 Conference Call Script

OPERATOR:

Ladies and Gentlemen, thank you for standing by.

Welcome to the Cirrus Logic second 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 third 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, market share 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)

I am pleased to report that our net revenue in the September quarter was \$53.3 million, up 13% from \$47 million in the quarter a year ago, and up 21% from \$44 million in the June quarter.

Individually, sales of Audio Products contributed \$30.6 million in revenue, compared to \$28.1 million in the quarter a year ago, and \$22 million in the June quarter.

Industrial Product shipments generated \$22.7 million, up from \$19 million in the quarter a year ago, and \$22 million in the June quarter.

You can find historical revenue breakdowns by product category on our Web site.

(Gross Margin)

Gross margin for the September quarter was 56% compared to 57% in the quarter a year ago and 56% in the June quarter. Gross margin for the quarter was above our original expectations due to a higher mix of Industrial product sales within the quarter, as well as increased operational efficiencies as a result of our focus on improving our supply chain processes. While we are pleased with our Q2 margins, we expect product mix changes will result in slightly lower gross margins in Q3.

(OPEX and Net Income)

Total GAAP operating expenses were \$24.2 million, compared to \$23.6 million for the previous quarter. Operating expenses during the quarter included approximately \$1.8 million in legal fees associated with derivative lawsuits related to our past stock option practices. Additionally, GAAP operating expenses included \$1.2 million in stock based compensation expense and approximately \$300,000 in acquisition related amortization of intangibles. Non-GAAP operating expenses, excluding these items was \$20.9 million for the quarter, compared to \$21.5 million in non-GAAP operating expenses during the June quarter.

Income from operations on a GAAP basis was \$5.8 million, or 11 percent. Excluding the items above, the non-GAAP income from operations was \$9.1 million or 17 percent, which represents significant progress towards our long term model of 20%.

We reported GAAP net income for the quarter of \$6.4 million, or \$0.10 per share, based on 65.3 million diluted shares. In the same quarter a year ago, we reported a GAAP net loss of \$300 thousand, or zero earnings per share. On a non-GAAP basis net income for the quarter was \$9.7 million or \$0.15 per share. In the September quarter a year ago, we reported non-GAAP net income of \$6.2 million or \$0.07 per share.

(Employee Headcount)

Headcount remained virtually flat as we ended the September quarter with 470 employees compared to 472 at the end of last quarter.

(Balance Sheet Accounts – Assets)

Moving to our Balance Sheet --- We ended the September quarter with \$25.6 million in net receivables, up from \$21.5 million at the end of the June quarter. This growth is inline with our expectations given the strong quarter over quarter revenue growth.

Ending net inventory increased seasonally by \$4.1 million in the September quarter to \$28.1 million, as we continued to ramp products to support current and anticipated customer demand.

(Cash Flow Metrics)

Capital expenditures for the September quarter were \$1.8 million compared to \$600,000 in the June quarter due primarily to the purchase of additional equipment for our world-class failure analysis lab. Depreciation and amortization expense in the September quarter was \$2 million.

We ended the quarter with \$110 million in total cash and marketable securities, an increase of \$7 million from \$103 million at the end of June.

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

JASON RHODE

Thank you, Thurman.

I'm proud of our performance in the September quarter. As Thurman noted, we grew revenue by 13 percent on a year-over-year basis, and we continue to manage operating expenses toward our long-term model, as we achieved 17 percent non-GAAP operating profit. We achieved both year-over-year and sequential revenue growth, driven primarily by growth in revenue from portable audio products. With the combination of these improvements, innovative new products and a continued focus on our strategic plan, we are making progress toward our long-term financial goals of 15 percent year-over-year revenue growth and 20 percent operating profit.

We're excited about the long-term opportunities from an aggressive lineup of new products that are being introduced this month that target multiple audio and industrial applications. We are focusing on improving our financial results, and despite uncertain global economic conditions, we are forecasting continued year-over-year revenue growth in fiscal Q3.

(Industrial Products)

Let me give you a brief update on our products, beginning with the Industrial category. Our primary focus within this category is on energy-related products. Revenue from industrial products in the September quarter came in at \$22.7 million, which is up by 20 percent compared to the September 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.

This past quarter, we named Tom Stein as vice president and general manager of our Industrial Products Division. Tom joined Cirrus Logic in 1995 and has held a variety of leadership positions within both marketing and sales. Tom has been a strong advocate for our key accounts program and has been instrumental in driving our growth in portable audio. That leadership and experience makes Tom a great fit to lead our industrial products team as we focus on expanding our opportunities in energy-related products and applications.

This week we expanded our range of energy-related products with the launch of our first ICs for our energy-control applications -- the SA306 and SA57 ICs under our Apex Precision Power brand. These ICs give motor control designers easy-to-use power IC solutions for driving three-phase brushless or brush-type DC motors in fractional horsepower applications. These are the industry's first ICs to deliver 17Amps PEAK in the 9 – 60 V supply range. In addition, these products eliminate the need for up to 60 individual discrete components while adding new features. They target motors used in applications such as factory and office automation, robotic controls and home applications such as garage door openers.

In other product lines, we continue to be well positioned with several tier 1 energy measurement accounts. This past quarter we also saw continued strong demand for our energy exploration products. 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. There are a variety of energy control markets that we believe will grow rapidly and provide an excellent opportunity for us to apply our signal processing expertise to another analog to digital interface.

(Audio)

Turning now to our Audio Products, this category contributed \$30.6 million of our revenue for the September quarter, up 9 percent compared to the September quarter a year ago.

Revenue from our line of portable products is growing rapidly during the second half of this calendar year, as we continue to increase our market share. We successfully supported key customers as they ramped new products into volume production, and our customer base has expanded to include applications such as portable gaming and navigation devices. Our customers value us as a technology leader in portable products, due to innovations such as the unique bimodal Class H technology that is a key feature for a product that will be introduced next week. This technology lowers power consumption at typical listening levels, while

maintaining high audio quality. All in all, we are achieving our goal in portable audio of becoming the supplier of choice. 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. One of the reasons for our long-term optimism is the introduction this week of the CS47048, an audio DSP with integrated audio converters targeting automotive amplifier applications. Featuring several patented technologies, this IC is a showcase of our combined analog and digital signal processing technology leadership. More importantly, what it means for our customers is that they now have an easy-to-use, single IC solution that doesn't make compromises on audio quality, delivers all the processing power they could want, and supports them with easy to use graphical programming tools to help them get to market faster. In automotive amplifier applications, the CS47048 could replace a variety of separate components, such as audio A/D and D/A converters, a DSP, sample rate converters and a SPDIF receiver – we're offering all this in one IC. This is the first in a planned family of future products that target multiple consumer electronics applications.

With these new products and others that are on their way soon, I feel we're in a strong position to grow market share in audio.

(Guidance)

While the overall health of the global economy has deteriorated recently, we view this current economic climate as an opportunity to develop a stronger company and grow market share by continuing to invest in our strategic plans. The fundamentals of our business remain sound -- we continue to have a strong balance sheet, outstanding engineering, a great lineup of new products, and some of the best customers in the world. We expect revenue and earnings growth on a year-over-year basis, and by continuing to focus on building a stronger company

throughout this downturn, I believe that we will be in an excellent position to emerge from this economic uncertainty even stronger.

Our guidance for next quarter is as follows:

- Revenue is expected to range between \$51 million and \$55 million;
- Gross margin is expected to be between 54 percent and 56 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.

To recap, we're excited that we continue to execute to our financial growth objectives by providing significant top-line revenue growth. This revenue growth combined with a strong focus on our production costs and operating expenses allowed us to achieve 17 percent non-GAAP operating profit during the quarter. Our improved operating profit is a reflection of our ability to grow revenue while maintaining a focus on driving down expenses. We are making great progress toward our long term target of 20 percent operating margins, and despite challenging global economic conditions, we are forecasting year over year revenue growth in Q3, driven by strong demand for our new products.

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 third quarter and are excited about the opportunities in front of us.

I would like to briefly mention that we will be opening the Nasdaq Market on November 7th next month in New York, and will also be attending the UBS Global Technology and Services Conference in New York on November 20th at the Grand Hyatt New York.

Thanks again for joining us on the call today.