Q3 FY 2010 Conference Call Script

OPERATOR:

Ladies and Gentlemen, thank you for standing by.

Welcome to the Cirrus Logic third quarter fiscal year 2010 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 fourth 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, inventory turns, 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 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 talk about the results…

(Net Sales)

Net revenue in the December quarter was $65.2 million, a 49% increase from $43.8 million in the same quarter a year ago, and a 17% increase sequentially from $55.7 million in the September quarter.

Audio Products contributed $47.1 million in revenue. This product group includes chips 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, sales of Audio Products grew 82% year-over-year, and are up sequentially 14% from the September quarter. These results are highlighted by continued growth in sales of new products, such as our portable audio codecs.

Sales of Energy Products were $18.1 million. This product group includes chips designed for a variety of energy measurement and energy control applications. Revenue for our Energy Products was flat on a year-over-year basis, but we saw strong sequential growth of 26%, due mainly to growing demand for our power meter products, as well as renewed strength in some of our baseline energy business such as seismic, high power, and general industrial products.

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

(Gross Margin)

Gross margin for the December quarter was 54%, down from 55% in the quarter a year ago, but up from 52% in the September quarter. To add some clarity around our margins, not only have our margins stabilized, they are moving towards our goal of 55%. We've experienced a significant shift in our revenue mix this past year as we've seen tremendous revenue growth with our new audio products. Our stated target for annual gross margins is to be 55 percent, and we're pleased with our progress on this front.

(OPEX and Net Income)

Total GAAP operating expenses for the December quarter were $24.0 million, compared to $22.5 million in the previous quarter. Non-GAAP operating expenses were approximately $22.9 million for the December quarter, compared to $22.4 million for the September quarter.

The increase in non-GAAP operating expenses is primarily due to higher employee expenses and sales commissions associated with higher revenue levels. We expect to be able to support these higher revenue levels without adding significantly to our expense profile. On that note, we ended the current quarter with 487 employees, a slight increase from 483 employees at the end of September.

Income from operations on a GAAP basis was approximately $10.9 million, or 17%, and income from operations on a non-GAAP basis was $12.1 million, or 19%.

We recorded GAAP net income for the quarter of $11.1 million, or $0.17 per share, based on 65.6 million diluted shares. In the same quarter a year ago, we reported net income on a GAAP basis of $2.8 million, or $0.04 per share, based on 65.3 million diluted shares.

On a non-GAAP basis we recorded net income for the quarter of approximately $12.2 million, or $0.19 per diluted share. In the December quarter a year ago, we reported non-GAAP net income of $4.4 million or $0.07 per diluted share.

(Balance Sheet Accounts – Assets)

Moving to our Balance Sheet --- We ended the December quarter with $25 million in net receivables, down slightly from $26 million at the end of the September quarter. Our average days sales outstanding remains consistent with previous quarters, and we continue to actively manage our credit risk.

Ending net inventory increased to $30.4 million from $22.5 million at the end of the September quarter. While this represents a substantial increase in inventory, we feel that we are maintaining the appropriate levels to support volume production ramps of new design wins and strong backlog. Net inventory turns were 4.0 for the quarter.

(Cash Flow Metrics)

We ended the quarter with $133.5 million in total cash and marketable securities, an increase of $9.5 million from $124 million at the end of September. During the last four quarters, total cash and marketable securities has grown approximately $16 million.

Cash flow from operations was $10.1 million for the quarter and $17.3 million on a year-to-date basis.

We have a $20 million stock repurchase program approved. We have not completed any stock repurchases under this program to date.

Capital expenditures for the December quarter were $1.4 million, compared to $2.5 million in the September quarter, while depreciation and amortization expense in the December 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 March quarter.

JASON RHODE

Thank you, Thurman.

Q3 was a great quarter for Cirrus Logic, and another indication that we are on the right track. We came into the quarter with lofty expectations driven by our successes in portable audio, and we exceeded those expectations on the strength of demand from a variety of product lines outside of portable. Margins were at the high end of guidance due to outstanding work by our supply chain team, coupled with increased contributions from some of our energy product lines. We've hired some great people, and we've managed to keep a fairly tight lid on expenses, so the growth in revenue and improved margins allowed us to deliver significantly improved earnings. Q4 is looking good as well, and we're even more excited about what is in store for Cirrus Logic in the coming year.

Let me give you some highlights from the Audio side of our business. At a very high level, our strategy is to target growing markets, work with tier one customers in those markets, and develop outstanding technology that solves real problems for them. Portable audio is about as exciting a market as there is today, and we are working with some of the best customers in this space. We strive for strong engineer-to-engineer relationships at these key accounts, which has resulted in a growing base of design wins across many SKUs in this market. We do not lose sight of the fact that it is usually easier to grow our business with an existing customer than it is to get a new one, and we put a great deal of attention into keeping our existing customers happy---and that seems to be working well. That said, we are heavily focused on winning new customers. During Q3, two new products targeting the general mobile phone market came back from fab, and both of them are working extremely well. Details on these products and more information on what's going on at Cirrus are in the Investor presentation on our website. We're actively promoting these new parts to key customers, and we're excited about their prospects.

Our home audio business also continues to do well. Last summer we announced our first 65nm DSP and at this point we're excited to see this product ramp into production with a key customer in Japan next quarter. In sound-bars, the prominence and variety of sound-bars promoted at CES this year was encouraging, as we believe the attach rate for this form factor will be growing as TVs continue to get thinner and thinner.

We've seen signs of improvement in other audio markets we serve, such as automotive. Overall in audio, we've achieved some great new design wins over the past year, and we're looking forward to helping our customers ramp their new products into production this quarter and throughout the coming year.

Looking now at our Energy business, we saw improvements in a variety of our Energy product lines throughout the quarter. Our traditional industrial business benefitted from the improving economy. Seismic is still substantially down from its peak levels, but it has improved over prior quarters. Forecasting the seismic business has always been a challenge, but our current backlog indicates that this business will be a meaningful contributor to revenue and margins over the next few quarters.

Our current investments in the Energy product lines are focused on power meters, and the energy control areas such as power factor correction, lighting, and motor control. We have been in the power meter business for many years, and the recent push for Smart Grid enhancements has created a lot of new opportunities worldwide. Our most recent power meter product to hit production shipped over a million units in Q3, and the FY11 outlook is excellent. We're in the product definition phase for the next generation of low cost metrology chips for the global market, and much like portable audio, our focus on tier one accounts in this market is working. We're actively promoting our first PFC product, and we expect to learn a great deal this year, and parlay this effort into a great lineup of derivative products. Again, there are very relevant parallels with the approach we took in portable audio.

As Thurman mentioned, we increased inventory levels substantially during Q3 in anticipation of upcoming new product ramps. The bulk of this inventory build is composed of our newer products for secure design wins and existing business. Quite frankly, the improving business conditions through the fall made it difficult to keep up with customer demands, and I'm pleased that we've now managed to get a bit ahead of the curve. Our expectation is for inventory turns to remain around four for the year. Our long term target is for 55% gross margins, and we expect to remain in the mid-50s through the efforts of our supply chain team, combined with improved business conditions in some of our higher margin product lines. We're actively hiring great engineering talent, but we will continue to carefully manage our expenses in order to make progress on our long term goal of 20% operating profit.

Our guidance for Q4 is as follows: We expect revenue to range between $55 million and $59 million, representing year over year growth of at least 64%. We expect gross margins to improve to be between 54 percent and 56 percent. Combined R&D and SG&A expenses are expected to range between $24 million and $26 million, which include approximately $1.5 million in share-based compensation and amortization of acquisition-related intangibles expenses.

We expect 2010 to be a great year for Cirrus Logic. Our team has done a great job of delivering new products and design wins to make FY11 a great success. Our sales and marketing teams are now busy attacking new opportunities to carry our growth into FY12, and our engineers are developing great new products to ensure that our long term outlook remains bright. Outstanding technology, exciting markets, awesome employees, and the best customers in the industry – we expect this to be a winning recipe for producing happy investors.

Operator, we are now ready to take questions…

(Q&A Session)

JASON RHODE

Thank you, Operator. I'd also like to note quickly that we'll be at the Oppenheimer Semiconductor conference on February 18th, in New York City. Thanks to you all for joining us on the call today.