Q4 FY ’08 Conference Call Script

Final

OPERATOR:

Ladies and Gentlemen, thank you for standing by.

Welcome to the Cirrus Logic fourth quarter fiscal year 2008 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 2009 revenues, gross margin levels, operating expenses, amortization of acquired intangibles, cash balance, and share-based compensation expense, as well as our estimates and assumptions regarding our future revenue growth, profitability, and average share count. 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 31, 2007, 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.

(Caretta Closing)

Before we move on to discuss our results for the March quarter, I want to mention that our quarterly results were impacted by charges associated with the previously disclosed closing of Caretta Integrated Circuits in Shanghai, China. As I discuss the quarterly results, I will address these charges, as well as the related quarterly costs from this business. With that in mind, let's discuss our results, starting with revenue.

(Net Sales)

Net revenue in the March quarter was $44.8 million, up 3% from $43.7 million in the quarter a year ago, and down seasonally from $48.9 million in the December quarter. Revenue was impacted by overall weak seasonal demand in consumer electronics, and overall softness in the consumer segment. As a result, sales turns during the quarter were lower than expected, particularly in the second half of the quarter as various customers worked to lower their existing inventory levels.

Audio Products contributed $22.3 million in revenue, compared to $24.5 million a year ago, and down seasonally from $27.3 million in the December quarter.

Industrial Products generated $22.5 million, up from $19.2 million in the quarter a year ago, and up from $21.6 million in the December 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 31 percent of our revenue during the quarter.

(Gross Margin)

Gross margin for the March quarter was 55% compared to 56% in the December quarter, and 60% a year ago. Our gross margin was impacted by the write-off of approximately $900 thousand in inventory related to the Caretta operations. Excluding this write-off, gross margins on a non-GAAP basis were 57%.

(OPEX and Net Income)

Total GAAP operating expenses were $37.7 million, compared to $26.1 million for the previous quarter. The increase in GAAP expenses was driven primarily by significant one-time charges related to the closing of Caretta, as well as other charges. These include:

- $12.1 million in restructuring charges associated primarily with the closure of Caretta;
- $400,000 in operational charges related to Caretta;
- $1 million in stock-based compensation expense;
- $1 million in facility-related charges;

- $400,000 for the amortization of intangibles related to acquisitions; and
- $100,000 in legal costs related to the recently closed Securities and Exchange Commission's investigation into our historical stock option practices.

Non-GAAP operating expenses, excluding these items was $22.7 million for the quarter, versus $24.4 million in the previous quarter.

We recorded a net loss on a GAAP basis for the quarter of $13.7 million, or $0.16 per share. Excluding the charges previously mentioned and an additional $3 million in deferred tax asset charges, non-GAAP net income for the quarter was $5.2 million or $0.06 per share, based on 85.6 million diluted shares.

(Other P&L line items)

Interest income for the fourth fiscal quarter was $2.4 million, down from $2.9 million in the previous quarter. The decrease in interest is due to a lower cash balance as a result of our stock buyback program.

(Employee Headcount)

We ended the March quarter with 473 employees compared to 548 at the end of the December quarter, which includes significant hiring in support of new product development.

(Balance Sheet Accounts – Assets)

Moving now to our Balance Sheet --- We ended the March quarter with $22.7 million in net receivables, down slightly from $23 million at the end of the December quarter.

Ending net inventory increased by $2.5 million in the March quarter to $22.5 million. The increased inventory levels were due primarily to inventory builds related to some of our higher running products.

We ended the quarter with $187 million in total cash and marketable securities, a decrease of $65 million from $252 million at the end of December.

The decrease in our cash balance is a direct result of the execution of our previously announced stock buyback program. During the quarter, we repurchased and retired approximately 13.3 million shares at a total cost of $71.1 million, as we ended the quarter with 75.9 million shares outstanding. I'd also like to update you with our progress since the end of the quarter, as the repurchase program was completed on April 28, 2008, with a total of 24.5 million shares repurchased at an average price of $6.11 per share. With the program complete, we expect total cash and marketable securities to be approximately $100 million at the end of the June quarter.

For the purpose of calculating our average quarterly share count for earnings per share, we used a daily weighted average resulting in 85.6 million shares outstanding. We expect our average outstanding share count to decrease to approximately 72 million shares at the end of the first fiscal quarter, and decreasing again to approximately 68 million shares at the end of the second fiscal quarter as the full impact of the lower share count is realized.

(Cash Flow Metrics)

Capital expenditures for the March quarter were $2.4 million compared to $400,000 in the December quarter. Depreciation and amortization expense in the March quarter was flat at $2.3 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.

Since I became CEO in May of last year, we set out on a plan to build a stronger, more fundamentally sound company and become the supplier of choice for tier 1 customers in markets we serve. We had a long “to do” list, and one of the first priorities was to strengthen the senior leadership team, which we’ve done with the addition of Scott Anderson, VP and general manager of the Mixed Signal Audio division, and Tim Turk, VP of Worldwide Sales. We set out to improve our sales organization in Japan, and we’ve done this through the addition of several key new hires. The leadership team developed a strategic plan, which ties to our long-term objective of 15% year-over-year revenue growth and 20 percent operating margins. From this plan emerged several strategic initiatives, such as new programs in energy management, to support our long term growth objectives. Also as part of this plan we exited from product lines that are no longer aligned to these objectives, such as Caretta, and we bolstered the industrial products division through the acquisition of Apex Microtechnology and its leading position in high-power products. To align the leadership team’s performance to key financial milestones, we developed a bonus program that is tied directly to achieving revenue growth and profit goals. Our recently completed stock buyback program underscores our confidence in our plan.

Internally – and of great importance to me personally -- we committed ourselves to making Cirrus a great company to work for and we’ve developed a strong vision, mission and core values, aligning all our employees with our long-term objectives and success. Clearly, Cirrus Logic is a much different company today. We’ve made significant improvements throughout the company, but of course there is still more work to be done. Our vision is to be the first-choice supplier of analog and digital signal processing components for audio and energy-related industrial markets. In portable audio products this is happening already, as we achieved significant market share growth in FY ’08 and we expect additional gains to drive growth in FY ’09.

We’re focusing on improving our financial results in FY ’09, including keeping operating expenses flat, even as we invest in new growth programs. With these numerous and significant actions taken in FY ’08, Cirrus Logic is fundamentally stronger overall, and we are looking forward to a growth year in FY ’09.

(Industrial Products)

I'd like now to provide 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. In the future, we will be primarily focused on the energy-related products within this category. Revenue from industrial products in the March quarter came in at $22.5 million, up 18% compared to $19.2 million in the March quarter one year ago.

We continue to achieve success in energy measurement applications, and we are currently ramping volume production with Itron, the worldwide leader in digital utility meters. Also, in the June quarter we will sample additional innovative products, and more new solutions are planned for later this fiscal year. As part of our strategic plan we are shifting our investment towards other energy-related applications in which our analog and digital signal processing solutions will provide value to key customers and drive long-term growth.

(Audio)

Let me now turn 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 $22.3 million of our March quarter revenue, down 9% compared to $24.5 million in the March quarter a year ago. 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.

Our continued success in growing revenue and market share from portable products is the highlight of FY ’08. Portable products include ICs for such applications as portable media, gaming, and navigation devices. We began investing heavily in this product line several years ago, which led to initial success with tier 1 customers, and today we are shipping to multiple leading customers that are generating strong, growing revenues. In FY ’08 we met our goal of $11 million in sales from this product line, or about 5% market share, and the momentum generated by this initial success has strengthened our expectation for continued growth in FY ‘09. We will be very disappointed if we don’t continue to make significant progress in growing our market share this fiscal year. We are growing our market share in portable products because we have focused our engineering efforts to deliver innovative products that our customers value. This success in growing revenue in portable products underscores our ability to enter new markets and gain share, and serves as a model for other product lines in which we commit resources to drive growth.

We are optimistic about our opportunity for revenue growth this year across multiple other applications, including automotive, home theater systems and digital television. We are also aggressively targeting new audio product categories such as soundbars, which are good opportunities for both our mixed-signal and our audio DSP products. Soundbars are sleek audio speaker products that are often sold as companion products for flat-panel TVs. In automotive applications, where we provide IC solutions for car audio amplifiers, head units and telematics applications, revenue from this product line helps to offset some of the cyclical nature of the consumer audio market. Our opportunities in this segment continue to grow. As an example, the Ford Sync telematics system is using one of our audio codecs, and we continue to have strong acceptance for our products from other leading manufacturers, such as Bose and Harman Kardon.

Overall, despite our expectations for a relatively weak consumer market this year, we expect that in FY ’09 our revenue will grow, particularly beginning this fall when we begin volume production for multiple key customers.

(Guidance)

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

- Revenue is expected to range between $42 million and $45 million;
- Gross margin is expected to be between 55 percent and 57 percent; and
- Combined R&D and SG&A expenses are expected to range between $24 million and $25 million, which includes approximately $2.0 million in share-based compensation and amortization of acquisition-related intangibles expenses.

To recap, we undertook a number of actions in FY ’08 to make Cirrus Logic fundamentally stronger and strategically aligned for growth this year. Our vision is to become the first-choice supplier of analog and digital signal processing components for audio and energy-related industrial markets. We’re focusing on improving our financial results in FY ’09, including keeping operating expenses flat, and we are investing in new programs that we expect to drive long-term growth.

And now let’s take your questions…

(Q&A Session)

JASON RHODE

Thank you for all your questions and your interest in Cirrus Logic. Before we sign off, I would like to point out that we will be presenting at the JPMorgan Annual Technology Conference on May 21st in Boston. Thank you once again for participating in the call.