

**— MANAGEMENT DISCUSSION SECTION**

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Cirrus Logic Second Quarter Fiscal Year 2014 Financial Results Q&A Session. At this time, all participants are in a listen-mode. After a brief statement, we will open up the call for questions from analysts. 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 call over to Mr. Thurman Case, Chief Financial Officer. Mr. Case, you may begin.

**Thurman K. Case, Chief Financial Officer, Vice President of Finance and Treasurer**

Thank you and good afternoon. Joining me on today's call is Jason Rhode, Cirrus Logic's President and Chief Executive Officer, and Chelsea Heffernan, our Investor Relations Manager.

Today, we announced our financial results for the second quarter fiscal year 2014 at approximately 4:00 P.M., Eastern. The shareholder letter discussing our financial results; the earnings press release, including a reconciliation of non-GAAP financial information to the most directly comparable GAAP information; along with the webcast of this Q&A session, are all available at the company's "Investor Relations" website, at [investor.cirrus.com](http://investor.cirrus.com). This call will feature questions from the analysts covering our company as well as questions submitted to us via e-mail, at [investor.relations@cirrus.com](mailto:investor.relations@cirrus.com).

Please note that during this session we may make projections and other forward-looking statements 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 Logic 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.

Now I'd like to turn the call over to Jason Rhode, our President and Chief Executive Officer.

**Jason P. Rhode, President and Chief Executive Officer**

Thank you, Thurman. Before we begin taking questions, I'd like to highlight a few of the things we discussed in our shareholder letter. Strong demand for our portable audio products drove revenue in Q2 above our expectations at \$190.7 million, resulting in an operating profit of 27% GAAP and 30% non-GAAP. Design activity with our custom, semi-custom and catalog products gained momentum as we added additional customers and skews across several of our product segments.

We continued to generate cash in Q2, exiting the quarter with approximately \$309 million in cash or \$4.57 per share. Cirrus Logic's strategy of providing innovative products to leading OEMs has driven significant revenue and earnings growth over the past five years. To accelerate our strategy in portable audio, on October 1, we acquired Acoustic Technologies, a leader in embedded firmware voice processing technology. With a strong technology portfolio and a team of approximately 30 highly qualified audio and Acoustic engineers, the acquisition increases our value proposition by combining our best-in-class audio components with sophisticated voice processing technology including noise reduction, echo cancellation, and voice enhancement.

I would like to take a moment to recognize, for the third year in a row, Cirrus Logic was named by the Great Place to Work Institute as one of the 50 best small and medium workplaces in America. We worked hard over the years to develop and maintain a strong corporate culture and we believe this unique culture is a fundamental component of our success and contributes to our ability to recruit and retain talented engineers.

Also I'd just like to note that while we understand there is intense interest related to our largest customer, in accordance with our policy, we do not discuss specifics about our business relationship.

Operator, we are now ready to take questions.

**QUESTION AND ANSWER SECTION**

Operator: [Operator Instructions] Our first question comes from Tore Svanberg with Stifel. Your line is open.

**<Q – Tore Svanberg>**: Yes, thank you. I was hoping you could talk a little bit about your current visibility. I know you can't talk about your largest customer in a meaningful way but if you can just give some parameters so we can feel comfortable with your current guidance and also if you have any thoughts about the upcoming March quarter?

**<A – Jason Rhode>**: Well, I mean, relative to the current quarter, I would say that visibility is quite the same as normal. We typically come into the quarter with a good deal of backlog. That's one factor that we consider. Obviously, we get forecasts and outlooks and dialogue with our various customers about what things are looking like supply constraints etcetera. And so our guidance is reflective of our best estimate of what that might be.

We certainly don't have a crystal ball in this industry especially that extends out from the December quarter into the March quarter just because there are so many variables that can be in play, holiday, inventory, who knows. And so our job is to make sure we're well positioned with inventory and everything else to be able to take care of our customers regardless of what the January quarter brings. But in regards to current quarter I would say nothing unusual there in terms of our visibility and as it relates to our guidance.

**<Q – Tore Svanberg>**: Very good. And as a follow-up question, and I'm not sort of asking for any near term guidance here but if we sort of look this transition from audio to voice, could you maybe talk about where we are in that process, I mean, do you have any meaningful exposure to voice today or there's something more to come in future years?

**<A – Jason Rhode>**: Well, we certainly have meaningful exposure to voice in some of the products that we – I'm sorry – don't talk about so much. Really in a phone – all of the voice in any phone that uses our stuff, typically, the voice and audio all go through our products in some fashion or another.

Obviously, we're trying to add additional capabilities to that, as we've done over the past couple of years, in the form of, for example, noise cancellation, which we ship in high volume. That is actually one of the most difficult problems in all of audio signal processing is acoustic noise cancellation. So we're very proud to have that one under our belt. And then the Acoustic Tech guys – one of the neat things about their technology is they're already shipping it with a number of customers.

Now, it's to date been a firmware that they're – a firmware algorithm that they're licensing to folks. And we think the combination of that technology with our world-class IC design and components that we provide make a combination that can cause that business to be meaningfully larger in the long run. So, in a number of different forms, we're already shipping voice processing today. And it's a vector that is very important to us, as we go forward.

**<Q – Tore Svanberg>**: Very good. And just last question, maybe, for Thurman. Thurman, could you talk a little bit about what your inventory plans are for the December quarter?

**<A – Thurman Case>**: Well, we're really expecting that inventory – we ended it around \$91 million for this quarter, and that was down a bit. We really see our inventory staying either flat or down – slightly down from where we were at the end of this quarter in December.

**<Q – Tore Svanberg>**: Very good. Great quarter. Thank you.

**<A – Jason Rhode>**: Thanks, Tore.

Operator: Our next question comes from Jeff Schreiner with Feltl and Company. Your line is open.

**<Q – Jeffrey Schreiner>**: Yes. Thanks for taking my question. Jason, could you help us understand the difference between a semi-custom and a custom design win that you've referenced in the shareholder letter.

**<A – Jason Rhode>**: Sure. Actually that's a good question. We've put that in there as a little bit there, but typically a fair amount of nuance when we develop a custom product for somebody. It's may be shades of gray from an investor perspective. But, for example, we do a number of different arrangements. When we do a custom product for somebody, it could be 100% custom for somebody either maybe they pay us NRE or the customer is big enough that we're happy to have the opportunity to do it for them. But we also sometimes entertain other options, for example a customer that's really – that is smaller but has some key insights into the market. They want a product that's exactly the way that they want it, only what they want. And then that information exchange of hey, here's what we want is traded off where we can sell the device to other customers as well. That would be an example of something that we would semi-custom. One customer specified it in detail and we certainly hope to sell that to them and then we additionally sell it to other customers as well. A fair amount of our automotive business, for example, has been developed that way.

**<Q – Jeffrey Schreiner>**: Okay. And then can you talk about -- you referenced in the shareholder letter as well a customer win but also you seem to be referencing around that commentary in different paragraphs some expansion into China. Can you talk a little bit about the expansion into China and maybe what the opportunity could be if that is in fact where the design win occurred?

**<A – Jason Rhode>**: Well, so just trying to kind of recap to Tore a little bit. We have seen over the past year, I would say an emergence of opportunity in a number of the portable audio and cell phone in particular guys in China as their business has grown and their product lines have diversified out to include higher end offerings. We've knocked down a number of design wins in that area that we're excited about. You know the opportunities are not as large in the near term as some of the existing design wins that we've got. Obviously but the neat thing about them is the expense to support them scales commence certainly as well because they're typically with devices that we've already got in our catalog that you can see on the website for example.

So it's really – to-date we haven't -- I don't believe to-date we've done semi-custom or custom work for anyone in China. Typically, that for us requires a customer that's willing to work multiple years out in the future and think really, really long-term whereas thus far the business in China that have referred in mobile phones has been more supported with the devices in our catalog. But nonetheless in other product lines, automotive for example, power meter is another area we've done custom and semi-custom devices in the past. Those are areas that we continue to invest in and see progress with our products in the marketplace.

**<Q – Jeffrey Schreiner>**: Final question for me. When will acoustic be accretive and how will it contribute to revenues and can you give us a final purchase price?

**<A – Jason Rhode>**: We really haven't disclosed any of the financials associated with that. Obviously, it's baked into our guidance. It's not a huge acquisition. I'd think of it much more as a technology acquisition. But nonetheless it did come with some revenue and more importantly came with the technology and the technologists that make it fly. So it's not a – it was not an expensive shop and I think of it more as a technology acquisition.

**<Q – Jeffrey Schreiner>**: Great. Thank you for your time.

**<A – Jason Rhode>**: You bet.

Operator: Our next question comes from Vernon Essi with Needham & Company. Your line is open.

**<Q – Vern Essi>**: Thank you very much for taking my question. Wondering just to go back to, I think, Tore's earlier question, Thurman, a housekeeping point here. If we were to look at that inventory reserve and back that out for the quarter, would your gross margin have been in the guided range pretty much more or less?

**<A – Thurman Case>**: Yeah. It would have – they would have been within the guidance that we originally gave.

**<Q – Vern Essi>**: Okay. Thank you. And then just moving into bigger-picture questions, more switching gears to you, Jason, the – congrats on the Acoustic Technologies' acquisition. Obviously, a lot of activity going on in sort of the noise cancellation area as well as the microphone side of things. And of course, recently, ADI is planning at least to spin off that business or sell it to [indiscernible].

I was wondering if you can go through sort of the differences there. Obviously, your solution is tied closely to microphone. Do you see there being a domain expertise advantage one way or the other? And then walk us through kind of the pros and cons of trying to go towards an integrated solution.

**<A – Jason Rhode>**: I guess, I'm not a 100% sure what you're asking there. We...

**<Q – Vern Essi>**: Well, if you – I guess, if – let me just explain it like this way. If you look at sort of where ADI was, the idea was they had this managed microphone solution and of course there is other ones that are out there in the market. And we'll hear more about them probably next year.

There is the thought process that the analog front-end could be sort of incorporated to be more closely mated to that. And your solutions I think you've proven at least on the audio amp front that you don't need to necessarily take that signal and process it on your own very effectively. And I'm just wondering if that, at the customer level, has really made any difference in how people are looking at these solutions.

**<A – Jason Rhode>**: Well, it's certainly a technology trend over long term to keep our eyes on that being digital mics, the bulk of the mics that are shipped out there today are analog, we worked with both. And the way we see it a key part of the value proposition in the long run is really more the signal processing that goes with the whole audio chain starting at the microphone and ending at the speaker, but there is a lot of opportunities in between those two things. And that's really where the sweet spot of the value we add is. In some -- that's the nature of the game in any sort of analog or mixed signal market is that in a given year, some fraction of what you do goes into a different device. And some fraction of the IPU that used to be provided by others comes back out in the analog domain. So, we see it as – overall, we see an expanding opportunity for the technology that we ship and we work with everybody out there that makes microphones. But typically, we see them -- historically have been a little bit more of a commodity type of product rather than a real design-in type device. So it's something we've certainly got our eye on if it provides a good opportunity for us to look at later we'll do that.

**<Q – Vern Essi>**: Okay. And then just moving over to LED, congrats on the incremental customer there and I think it might be an understatement to say it's probably missionary sell so to speak to get newer customers on board. Should we look at this as being perhaps -- will the next one be a quicker timeline between the first and second win, from second to third or is it sort of still just a kind of a long process behind the scenes?

**<A – Jason Rhode>**: Yeah, I mean I think LED provides a tremendous opportunity. It's a great opportunity for our technology. We've got good products. We feel like we've got the best performance in the industry. It remains -- that market remains very traditional, inch deep, mile wide type business just because it's so fragmented. There's a small number of players that ship a ton of lightbulbs but each one of those design -- it's really more a space where a big name brand -- their volume is made up of a shipment of a really large number of SKUs and each of those are design wins we've got to get individually.

So for us, it's an exercise in having the best product and having it be easy to design in having great collateral that goes with having a team and knows how to promote it and so that we can go after the market efficiently. Because it is quiet different than the portable audio market where there's a small number of design wins that make up the bulk of their revenue. So I think our progress there is good. I think there's a lot of new products going to market over the next while that we've done a good job of getting designed into. But it is definitely a business of base hits and we're just trying to position ourselves to take advantage of the benefits that our technology brings.

**<Q – Vern Essi>**: Okay. And just taking to that one step further, you'd characterized in the market as you said fragmented. I mean hasn't really the long tail is still very much alive and well. I don't know, Pareto [ph] is sort of head developing with a lot of high volume runners that you feel are taking the market by storm. It's still very much of an inch-deep, mile-wide as you characterized it.

**<A – Jason Rhode>**: Yeah. I think it's still very much an inch-deep, mile-wide. There are -- obviously, there is bigger -- some opportunities that are bigger than others. And we think we're well positioned over the long term to do well in those accounts. But it's a relatively low ASP kind of a product. It is a business where we need to aggregate up a bunch of volume from a lot of design wins to really have it turn into the business that we want to see.

**<Q – Vern Essi>**: Okay. All right. Thanks for taking my questions. Thank you.

**<A – Jason Rhode>**: Great. Thanks, Vern.

Operator: [Operator Instructions] Our next question comes from Christopher Longiaru with Sidoti & Company. Your line is open.

**<Q – Chris Longiaru>**: Hey, guys. Congrats on the results.

**<A – Jason Rhode>**: Thanks, Chris.

**<Q – Chris Longiaru>**: My question has to do with these new customers. So, typically, with your larger customers, you have kind of an ongoing engineering relationship, and your visibility tends to be pretty good relatively. With these new customers and these catalog parts, can you talk a little bit about how your visibility is different and how you're managing that business differently?

**<A – Jason Rhode>**: Well, I mean, I think, it's more typical of the semiconductor industry, in general, or more typical at least of the analog mixed-signal space, in general. I mean, certainly, when we do a custom device for somebody, obviously, we get a lot more visibility and a lot longer-term kind of stability, I guess, you would say, out of that, which is a great thing.

But, frankly, it's not the easiest thing to find customers that are big enough to warrant a custom development all the time. And so we have to maintain a portfolio of competitive catalog products so that we can go after some of these other guys. And it's -- number one, it's good business; and number two, it's a good way to keep our eyes on the horizon and make sure that there's not something coming out and that's going to surprise us down the road.

So in terms of support, we've been in that type of business for longer than I've been in the company, so there is nothing really new there, but it is new that there is more opportunities in portable audio that fall into that category that are worth chasing after.

**<Q – Chris Longiaru>**: And then just switching over on the LED front, I'm sure there were announcements from different entities, Walmart has got a whole line of LED bulbs coming out there, \$10, around \$10. Do you have any expectations for the price going down that much that it's affecting? Can you comment just on a relative expectations for the LED business going out into the next couple of quarters?

**<A – Jason Rhode>**: Yes, I mean, like I said earlier, our focus is on trying to unearth as many opportunities as we can find and try to win as many of them as possible. And then separately from that the market opportunity, I think you're right in that – I think \$10 is a pretty significant kind of price threshold. I mean we tend to think in black and white, it's definitely shades of gray. But there is no question that – I think the notion of a consumer doing an ROI calculation to figure out if they should buy a \$30 light bulb or not is kind of ridiculous.

I mean what are you going to do – make sure the light bulbs don't convey when you sell the house, just the idea is silly. The prices need to get in that \$10 and \$5 range. And the other interesting dynamic that we have seen is, there's not really a lot of point in a utility or a municipality, for example, subsidizing a \$30 lightbulb by \$5 because it doesn't really make that big of a difference. But if you get down in the \$15 and \$10 range then we do start to see subsidies kick in because they can move the needle on consumer behavior. It's interesting because it's real certainly one of the most interesting market dynamics that I've ever gotten to participate in.

In that you know, we've got a lot of players that are well established in the lighting market but suddenly, they're faced with marketing challenge of marketing highly differentiated very technical product it is -- anything but a committed commodity from a performance perspective. And that's mixed with new entrants and folks that come at it from a much higher tech point of view. It's just been kind of the remarkable confluence of folks that might ultimately be our customers jockeying for position in the marketplace and then they bring it to where it will ultimately end up being.

So it's been an interesting thing to participate in. We've continued to see it as a good opportunity for Cirrus. We think again our technology is positioned extremely well. But as you can imagine, as we have no illusions going out in the first place, it will definitely be a price competitive industry just on account of the sheer volume. So we need to -- unlike a lot of markets that we anticipate in where our chip fits into a well defined system. In a lightbulb, typically the LED lighting the chip defines the whole system. It's often the only IC in the lightbulb coupled with small number of power devices and some magnetics.

And in that, it's a different marketing challenge because our chip essentially defines what a customer's bill of materials is the electronic materials for the components. So it's definitely an area that is very involved from a product promotion to customers' point of view, technical capabilities of the devices, what parts do they pair it with, how do those price out in different markets. There is a lot of really interesting market dynamics there. And, again, we like our opportunities in the long run.

**<Q – Chris Longiaru>**: Okay. Great. I'll jump out. Thank you, guys.

**<A – Jason Rhode>**: Thanks, Chris.

Operator: Our next question comes from Blayne Curtis with Barclays. Your line is open.

**<Q – Blayne Curtis>**: Good afternoon, guys. Maybe, just going back to the first question on seasonality, last year, your business was down about 30%. I think we've heard from other suppliers this seems like a fairly normal year. And I know you had some better visibility last year. So I was

wondering if you could just comment – I know it's hard and it depends on sellthrough. But given what you have today, if you had any sort of more granular thoughts on Q1 seasonality?

**<A – Jason Rhode>**: I really don't. It depends on so many different things that I'm not going to get ahead of myself and then try to prognosticate what consumers are going to do this Christmas and what's going to launch and all of that good stuff.

I feel – given all the dynamics involved, I feel pretty good when we're able to be close in the existing quarter – in the current quarter. This one in particular is – it's just there is so many variables in it. And that's why we typically only give the current quarter's guidance.

**<Q – Blayne Curtis>**: Got you.

**<A – Jason Rhode>**: From a bigger picture point of view, we feel very good about where we're at. We're doing all the right things in terms of winning designs and maintaining our presence in with the customers. Obviously, I get it that what any one particular quarter might be is of intense interest to the investment community. But it's not how we manage the business. We need to be doing the right stuff for the long run and that's the part that we've got any control over. So that's where our focus is.

**<Q – Blayne Curtis>**: Got it. And then maybe one for Thurman, the benefit in the September quarter from the written off inventory, is that all of the written off inventory have now been sold or is there still more reserves.

**<A – Thurman Case>**: We are not breaking all of that up, we still have inventory reserved. I mean, the numbers, you can kind of do the numbers from what we originally talked about. That's been the reserve that we took in the beginning within back into the numbers where it is now. So there's still some left. We don't expect a lot of that to move up in the future, but there's some left on the bugs.

**<Q – Blayne Curtis>**: And this may be a dumb question, but is there any benefit in the December quarter?

**<A – Thurman Case>**: It's not going to be of any significance.

**<Q – Blayne Curtis>**: Got you. And...

**<A – Thurman Case>**: Blayne, just to put it in a different way, everything that we know about is baked into the guidance.

**<Q – Blayne Curtis>**: Okay. And then just on the Acoustic acquisitions, I mean, there is 30 employees that have been around for a while, is there anyway that you can – I know you don't want to give exact revenue number but is it insignificant again like a few million or is there a greater revenue base there, if you could just kind of broad strokes. That would be helpful.

**<A – Jason Rhode>**: If it was a greater revenue base, there would probably be some regulation where we have to tell you about it.

**<Q – Blayne Curtis>**: But you need to sell \$100 million a year. So...

**<A>**: Because it's fair point. Yes, I mean, there is a variety of reasons we don't get into the details of it. It's not a giant number, I will always tell you that much and the outlook for it is baked into the quarter. So, but, again, I would think about it more as a technology thing. They do have good technology that's shipping with a number of people. But our goal is really to monetize that by combining it with our devices over the long-run. We're not – we are certainly going to monetize their existing business with existing business with existing customers to best extent possible. Actually

one of the neat things about the acquisition was that there was really a perfect combination of our customer base. In that they had customers that we don't currently have, we had customers that they don't currently have and then we've an overlap of customers that we're jointly doing business with which gave us good visibility and the kind of people they were and the technology that they had.

So we think that what they're doing can pull through some of our hardware we think -- what we're doing hardware wise, can pull through some of their software in new accounts and we think we can grow the business that we're already jointly in over the long term. So I mean it really doesn't line up a whole lot better than that when you look at these things.

**<Q – Blayne Curtis>**: Okay, thanks Jason.

**<A – Jason Rhode>**: Sure. Thanks Frank.

Operator: [Operator Instructions] Our next question comes from Erik Rasmussen with Stifel. Your line is open.

**<Q – Erik Rasmussen>**: Well, great, thanks. Maybe if we can switch gears, automotive has been kind of a bright spot in an area of focus for your guys. As you look to diversify your signal processing capabilities. Can you just give us any color on where you're at with automotive and comment on where you are with some of the other areas such as home applications, set top box DVDs?

**<A – Jason Rhode>**: Yeah, so automotive is just a fantastic market for audio in that automotive itself has grown and the infotainment packages in automotive are getting more elaborate and propagating down the product lines quite rapidly. So it's not a huge percentage of our business today but it is an area we've been investing in. Typically in the past what we've been a part of is really more of what's referred to as DSP amp. So for example, it might be an upgrade option from the various different companies. So you go buy a car and maybe you choose the upgrade package to get the fancy audio system and there is a box somewhere under the driver's seat or in the trunk or whatnot that's got some of our devices in it.

That's a good business for us. We've invested in it. We'd like to see that grow. Longer-term, I think, both in automotive and in the home, a lot of the technologies that we've developed and are continuing to develop for portable audio are going to become – they're going to find their maturity in the mobile space just because it's a nice self-contained system. But as they do, some of these technologies are very applicable to automotive in home.

So, for example, the beamforming technology that we've got with Acoustic Tech, as we boil that down into a simple hardware product that is kind of what they say are marketing is kind of a whole product that is easy for a customer to design in without having to wrestle with a software provider or a hardware provider, etcetera, etcetera.

As we boil that down to a simple hardware product, we would like to see, for example, beamforming echo cancellation and other kinds of voice technologies propagate their way into applications such as automotive or home audio where they can add a lot of value once they've really been wrung out in the mobile proving ground.

So that's kind of some of the stuff that we see happening in automotive in the longer term. In the short term, it remains a great business for us, and we're certainly investing in it.

**<Q – Erik Rasmussen>**: Thank you for that. Maybe just one last one. On your DTAs, any update or progress on reducing your tax liabilities once those DTAs are fully depleted? I know you've talked about that in the past, but I just want to see if you have any update. Thanks.

**<A – Jason Rhode>**: We really don't. It's something we continue to investigate. We're looking at a lot of options. We'd – obviously, we would really like to get our tax exposure as well as possible but at the same time the key balance for us is making sure that we don't impact the abilities that we've developed as a company to be number one and support our customers. That's obviously the priority for us and a lot of the easier things, a lot of the lower hanging fruit that used to be available, a lot of the companies there – sorry – a lot of the countries that were havens for that sort of thing have changed their rules or made it more difficult or more restrictive to start that kind of operation. So we're still looking at it. I mean for now you just kind of model the basic tax rate and if we make any further process on that then that will be a upside.

Operator: Thank you. We show no more questions at this time. I'll turn it back over to Chelsea Heffernan.

**<Q – Chelsea Heffernan>**: Thank you, operator. We will conclude the call with questions that we received via e-mail this afternoon. The majority of the questions were addressed during the Q&A session; however, several questions were not asked.

The first question, in the June quarter, Cirrus did not repurchase shares due to a restriction. Can you provide more color as to what is considered meaningful enough to restrict share repurchases?

**<A>**: It's a good question and one we get a lot. I wish there were more of a bright line test for what was material and what wasn't. But it ends up being a discussion between the Board, Thurman, our Legal Counsel, as to do we – are we aware of anything that we haven't discussed on our earnings call that a shareholder would find material. And certainly at some threshold we just decide that there is enough information floating around that we haven't been able to put out and that causes us to decide to sit on the sidelines on the repurchase. Obviously we were to get back in the market in August and repurchase some shares. We see that as a very good way to return cash to shareholders. We've taken off good significant percentage of shares of the company just even in the past year alone if you rewind the clock back to say 2008. We have like 100 million or so remaining on the existing operation. And it's something that we continue to expect to execute on from time-to-time depending on the market conditions.

**<Q – Chelsea Heffernan>**: Great. The next question what is your long-term operating profit model and how should we think of it on a quarterly basis?

**<A – Jason Rhode>**: Our expectation is as we've highlighted [indiscernible] and other places. Our expectation is over the long-term, to be able to maintain an operating profit in the 20% range. Obviously, we're in a seasonal business and things vary quarter-on-quarter from a revenue perspective. And it's not prudent to manage a company of this sort to manage the expenses on a quarter-to-quarter basis.

It's because it tends to be things like people. And it takes up a very long time to build up the expertise that we've build up and to serve the markets that we serve. So by nature we have to manage our expenses from long-term perspective. So you can certainly expect to see variations quarter-by-quarter depending on what the revenue is doing. Some quarters like for example this past quarter. We expect to be well in advance of that model. And other quarters, just by nature of things if we're averaging 20 other ones we'll lower than that. So our expectation though in long-term on average is right around 20%.

**<Q – Chelsea Heffernan>**: Thanks, Jason. The final question today. We had several investors submit questions regarding the class action lawsuit. Can you please provide an update?

**<A – Jason Rhode>**: Unfortunately, we can't comment on going litigation but we're optimistic about the outcome of that lawsuit and we expect to continue to vigorously defend the company.

<Q – Chelsea Heffernan>: Great.

**Jason P. Rhode, President and Chief Executive Officer**

In summary, we are pleased with our Q2 revenue, operating profit and earnings per share. During the quarter, we continued to ramp our custom and general market portable audio products. We added new customers, and we expanded into more SKUs with existing customers in both audio and energy.

In keeping with our business model, we will continue to make strategic R&D investments in markets such as voice processing and LED lighting where our signal processing expertise and abilities to deliver innovative, cutting-edge products are expected to contribute to future growth opportunities.

As many of you may have noticed, we revamped our investor website in late July. We recently added four new videos, which I would like to encourage you to check out. I'd also like to note we will be attending the Goldman Sachs conference on November 14 in New York City and the NASDAQ conference in London on December 3 and 4. We hope to see some of you there.

If you have any questions that were not addressed, you can submit them via the "Ask the CEO" section of our Investor website. I'd like to thank everyone for participating today. Goodbye.

Operator: Ladies and gentlemen, thanks for participating in today's program. This concludes the program. You may all disconnect.

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