



July 25, 2013

# Letter to Shareholders Q1 FY14

**CIRRUS LOGIC, INC.**



**July 25, 2013**

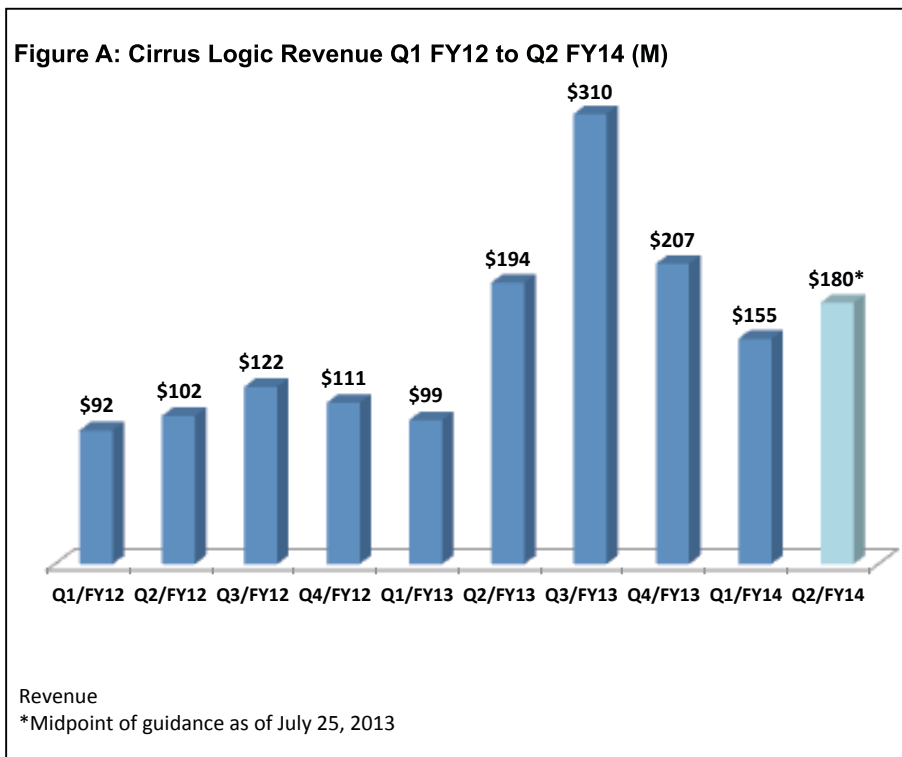
Dear Shareholders,

We are pleased with our Q1 financial results, as we delivered GAAP and non-GAAP operating profit of 20 percent and 24 percent, respectively, on revenue of \$155.1 million. GAAP EPS in Q1 was \$0.31, versus \$0.10 the year ago quarter and non-GAAP EPS was \$0.56, up from \$0.22. During the quarter, we ramped shipments of new products and added additional customers as we continue our efforts to expand our custom and general market portfolio in portable audio and LED lighting. In audio, we are seeing strong customer interest in our innovative products designed to enhance the audio and voice experience for mobile phones. We are presently selling products into several additional mobile phone manufacturers and are in discussions with multiple others. Design activity remains healthy in LED lighting, particularly with our new single stage LED controller, as we continue to ramp with our existing customers and engage other OEMs.

We believe we are in the early stages of a new wave of innovation in both the audio and energy markets. As the manner in which we interact with our personal devices, homes, and automobiles becomes more complex, the need to bridge the analog and digital divide will remain essential. Cirrus Logic's extensive analog and digital signal processing experience, proven engineering execution and substantial IP portfolio position the company to be a key innovator and supplier in these markets.

## Revenue and Gross Margins

Revenue for the first quarter increased 57 percent year over year. As anticipated, revenue declined 25 percent quarter over quarter, ahead of sequential growth expected in the second half of the calendar year. This sequential decline was driven primarily by portable audio, although this business grew significantly on a year-over-year basis. Sales of the other audio product lines experienced a modest increase. Our relationship with our largest customer remains outstanding and new design activity is robust. While we



understand there is intense interest in this customer, in accordance with our policy, we do not discuss specifics about our business relationship. In our energy business, revenue declined year over year largely due to the sale of assets associated with Apex Precision Power. On a sequential basis,

energy revenue increased slightly overall, with growth in LED lighting somewhat offset by softer sales in power meter and seismic.

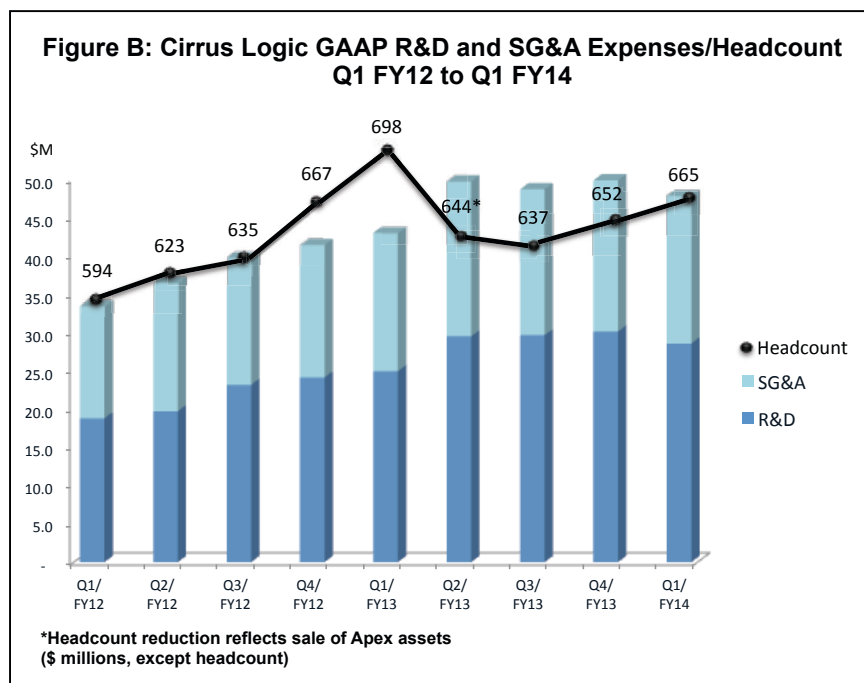
In the September quarter, revenue is expected to range from \$170 to \$190 million, down seven percent year over year at the midpoint and up 16 percent quarter over quarter, as we anticipate broad-based sequential growth across several of our audio

product lines as well as the LED lighting and power meter product lines in our energy division.

Gross margins for the quarter were in line with our expectations at approximately 51.2 percent. As we mentioned at the Barclays Conference on May 23, our margins are transitioning to a long-term model in the mid-40-percent range as our average selling prices become closer aligned with our peer suppliers in the portable electronics market. In the September quarter, we expect gross margin to range from 46 percent to 48 percent.

### *Operating Profit and Earnings*

In the June quarter, we remained focused on our operating profit as we invested in compelling R&D projects while carefully managing our SG&A expenditures. Operating profit on a GAAP basis in Q1 was 20 percent and 24 percent on a non-GAAP basis. We believe these results position Cirrus Logic at the high end of our peer group's performance, highlighting our ability to efficiently manage expenses while investing in critical R&D



initiatives that we expect to drive future growth opportunities. Our business model enables ongoing innovation and engineering execution, which contribute to the development of cutting edge products and exceptional support for both new and existing customers. Additionally, we are increasing our

investment in technical marketing as we evaluate and identify future product opportunities.

GAAP operating expenses in Q1 were \$48 million, which included approximately \$5.8 million in share-based compensation. Operating expenses were below our expectation primarily due to lower than anticipated employee expenditures and product development costs. Q2 guidance for operating expense is \$49 million to \$53 million, including \$7 million in share-based compensation, reflecting an expected increase in R&D. Our total headcount in Q1 was 665, up from 652 the prior quarter.

The Q1 ending cash balance was approximately \$272 million, up \$35 million sequentially. Cash flow from operations in Q1 was roughly \$37 million. As of June 29, 2013 we have roughly \$114 million remaining in our share repurchase program announced in November 2012 and we expect to execute on this program opportunistically from time to time. In addition, we continue to actively evaluate all uses of cash, including potential technology and business acquisitions that could enhance our market opportunities.

### *Taxes*

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Our GAAP tax expense during the quarter was \$11 million, which includes \$10.2 million of non-cash expense associated with our deferred tax asset. We have approximately \$71.5 million of deferred tax assets remaining on our balance sheet. For FY14, we expect our effective quarterly cash tax rate to be less than four percent, until we have utilized the remaining deferred tax assets. At that time, our initial cash tax rate is expected to be approximately 35 percent.

### *Company Strategy*

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Cirrus Logic's ability to leverage our core engineering competencies in exciting markets where our innovative solutions are valued and help differentiate our customers' products has been a key element of our success. It can take roughly a year to design a new IC and due to the proprietary nature of our products it often takes another year for our customers to design our chips into their products. Given these long design cycles, it is





important for our technical marketing and engineering teams to remain focused on identifying and executing on long-term opportunities. Over the past year we have concentrated on broadening our custom and general market product portfolios in portable audio and LED lighting. We are pleased with our continued progress in the June quarter as design activity remained robust and we shipped products to new customers and added additional SKUs. We believe innovation in our target markets is in the early stages and we continue to work with an expanding list of market leaders in order to capitalize on our revenue growth opportunities.

While we are in the midst of a market shift toward more cost competitive devices in the smartphone market, opportunities are abundant for sophisticated analog and digital signal processing, as the value placed on the audio and voice experience has grown considerably. Consumers are eager to intelligently interact with their mobile devices from both a voice interface and contextual awareness perspective. This requires an ultra low power digital and analog signal-processing component that enables devices to be always on and always ready to respond to commands. Innovation in this area will be a key focus for us over the next few years. During the quarter, shipments of our catalog analog-to-digital converters continued to ramp in multiple handsets at a leading manufacturer of high quality smartphones. Additionally, over the past six months we have seen increased interest from OEMs in China as they begin to target the mid-to-high end market with products offering differentiated audio performance.

Shipments of our LED controllers continued to accelerate in Q1 as we expanded into more SKUs with existing customers in Europe and the United States. Our primary objective for LED lighting in 2013 is to further develop meaningful relationships and add incremental design wins with key LED lighting OEMs, ahead of material volume shipments in calendar year 2014-2015. We are actively engaged with these OEMs and expect to have more bulbs on the shelves over the next 12 months. Our engineers have developed a product roadmap that maintains best-in-class dimming performance at a competitive system cost, which will contribute to lower LED bulb price points and widespread consumer adoption. Consequently, in April, we launched our single-stage LED controller,

which maintains exceptional performance while reducing the overall total bill of materials. We are encouraged by the positive customer feedback and initial design momentum with this product.

### *Summary and Guidance*

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For the September quarter, we expect the following results:

- Revenue to range between \$170 million and \$190 million;
- Gross margin to be between 46 percent and 48 percent; and
- Combined R&D and SG&A expenses to range between \$49 million and \$53 million, including approximately \$7 million in share-based compensation expense.

In summary, we delivered strong operating profit and EPS in Q1 as we invested in compelling R&D projects and carefully managed our SG&A expenses. During the quarter, we continued to gain traction in portable audio and LED lighting as we added new customers and expanded into more SKUs. In FY14, we will continue to invest in innovative products and strengthen important customer relationships in both audio and energy that are expected to drive revenue opportunities over the next few years.

Sincerely,



Jason Rhode  
President and Chief Executive Officer



Thurman Case  
Chief Financial Officer

## Conference Call Q&A Session

Cirrus Logic will host a live Q&A session at 5 p.m. EST today to answer questions related to its financial results and business outlook. Participants may listen to the conference call on the Cirrus Logic website. Participants who would like to submit a question to be addressed during the call are requested to email [investor.relations@cirrus.com](mailto:investor.relations@cirrus.com).

A replay of the webcast can be accessed on the Cirrus Logic website approximately two hours following its completion, or by calling (404) 537-3406, or toll-free at (855) 859-2056 (Access Code: 99347958).

## Use of Non-GAAP Measures

*This shareholder letter and its attachments include references to non-GAAP financial information, including operating expenses, net income, operating profit and diluted earnings per share. A reconciliation of the adjustments to GAAP results is included in the tables below. Non-GAAP financial information is not meant as a substitute for GAAP results, but is included because management believes such information is useful to our investors for informational and comparative purposes. In addition, certain non-GAAP financial information is used internally by management to evaluate and manage the company. As a note, the non-GAAP financial information used by Cirrus Logic 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.*

## Safe Harbor Statement

*Except for historical information contained herein, the matters set forth in this news release contain forward-looking statements, including our future growth expectations and our estimates of second quarter fiscal year 2014 revenue, gross margin, combined research and development and selling, general and administrative expense levels, and share-based compensation expense. In some cases, forward-looking statements are identified by words such as "expect," "anticipate," "target," "project," "believe," "goals," "opportunity," "estimates," "intend," and variations of these types of words and similar expressions. In addition, any statements that refer to our plans, expectations, strategies or other characterizations of future events or circumstances are forward-looking statements. These forward-looking statements are based on our current expectations, estimates and assumptions and are subject*





*to certain risks and uncertainties that could cause actual results to differ materially. These risks and uncertainties include, but are not limited to, the level of orders and shipments during the second quarter of fiscal year 2014, as well as customer cancellations of orders, or the failure to place orders consistent with forecasts; and the risk factors listed in our Form 10-K for the year ended March 30, 2013, and in our other filings with the Securities and Exchange Commission, which are available at [www.sec.gov](http://www.sec.gov). The foregoing information concerning our business outlook represents our outlook as of the date of this news release, and we undertake no obligation to update or revise any forward-looking statements, whether as a result of new developments or otherwise.*

**Summary financial data follows:**



**CIRRUS LOGIC, INC.**  
**CONSOLIDATED CONDENSED STATEMENT OF OPERATIONS**  
(unaudited)  
(in thousands, except per share data)

	Three Months Ended		
	Jun. 29, 2013 Q1'14	Mar. 30, 2013 Q4'13	Jun. 30, 2012 Q1'13
Audio products	\$ 143,666	\$ 196,098	\$ 80,747
Energy products	11,459	10,775	18,259
<b>Net revenue</b>	<b>155,125</b>	<b>206,873</b>	<b>99,006</b>
Cost of sales	75,627	123,259	45,566
<b>Gross Profit</b>	<b>79,498</b>	<b>83,614</b>	<b>53,440</b>
Research and development	28,530	30,085	24,910
Selling, general and administrative	19,198	19,724	18,059
Other expenses, net *	265	-	-
Total operating expenses	47,993	49,809	42,969
<b>Operating income</b>	<b>31,505</b>	<b>33,805</b>	<b>10,471</b>
Interest income, net	158	106	127
Other income (expense), net	(17)	14	(23)
<b>Income before income taxes</b>	<b>31,646</b>	<b>33,925</b>	<b>10,575</b>
Provision (benefit) for income taxes	11,004	7,565	3,648
<b>Net income</b>	<b>\$ 20,642</b>	<b>\$ 26,360</b>	<b>\$ 6,927</b>
Basic earnings per share:	\$ 0.33	\$ 0.41	\$ 0.11
Diluted earnings per share:	\$ 0.31	\$ 0.39	\$ 0.10
Weighted average number of shares:			
Basic	63,363	63,877	64,470
Diluted	66,188	67,138	68,529

*Prepared in accordance with Generally Accepted Accounting Principles*

\* Other expenses, net may contain certain items such as litigation expenses, proceeds from a patent agreement, restructuring items, sales reorganizations, asset gains and impairments of non-marketable securities.



**CIRRUS LOGIC, INC.**  
**RECONCILIATION BETWEEN GAAP AND NON-GAAP FINANCIAL INFORMATION**  
(unaudited, in thousands, except per share data)  
(not prepared in accordance with GAAP)

*Non-GAAP financial information is not meant as a substitute for GAAP results, but is included because management believes such information is useful to our investors for informational and comparative purposes. In addition, certain non-GAAP financial information is used internally by management to evaluate and manage the company. As a note, the non-GAAP financial information used by Cirrus Logic 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.*

	Three Months Ended		
	Jun. 29, 2013 Q1'14	Mar. 30, 2013 Q4'13	Jun. 30, 2012 Q1'13
<i>Net Income Reconciliation</i>			
<b>GAAP Net Income</b>	<b>\$ 20,642</b>	<b>\$ 26,360</b>	<b>\$ 6,927</b>
Amortization of acquisition intangibles	-	-	353
Stock based compensation expense	5,774	5,734	4,173
International sales reorganization charges	-	442	-
Restructuring and other costs	(430)	-	-
Patent settlements, net	695	-	-
Provision (benefit) for income taxes	10,161	7,372	3,355
<b>Non-GAAP Net Income</b>	<b>\$ 36,842</b>	<b>\$ 39,908</b>	<b>\$ 14,808</b>
<i>Earnings Per Share Reconciliation</i>			
<b>GAAP Diluted earnings per share</b>	<b>\$ 0.31</b>	<b>\$ 0.39</b>	<b>\$ 0.10</b>
Effect of Amortization of acquisition intangibles	-	-	0.01
Effect of Stock based compensation expense	0.09	0.09	0.06
Effect of International sales reorganization charges	-	0.01	-
Effect of Patent settlements, net	0.01	-	-
Effect of Provision (benefit) for income taxes	0.15	0.10	0.05
<b>Non-GAAP Diluted earnings per share</b>	<b>\$ 0.56</b>	<b>\$ 0.59</b>	<b>\$ 0.22</b>
<i>Operating Income Reconciliation</i>			
<b>GAAP Operating Income</b>	<b>\$ 31,505</b>	<b>\$ 33,805</b>	<b>\$ 10,471</b>
<i>GAAP Operating Profit</i>	<i>20%</i>	<i>16%</i>	<i>11%</i>
Amortization of acquisition intangibles	-	-	353
Stock compensation expense - COGS	6	296	118
Stock compensation expense - R&D	2,854	2,976	2,243
Stock compensation expense - SG&A	2,914	2,462	1,812
International sales reorganization charges	-	442	-
Restructuring and other costs	(430)	-	-
Patent settlements, net	695	-	-
<b>Non-GAAP Operating Income</b>	<b>\$ 37,544</b>	<b>\$ 39,981</b>	<b>\$ 14,997</b>
<i>Non-GAAP Operating Profit</i>	<i>24%</i>	<i>19%</i>	<i>15%</i>
<i>Operating Expense Reconciliation</i>			
<b>GAAP Operating Expenses</b>	<b>\$ 47,993</b>	<b>\$ 49,809</b>	<b>\$ 42,969</b>
Amortization of acquisition intangibles	-	-	(353)
Stock compensation expense - R&D	(2,854)	(2,976)	(2,243)
Stock compensation expense - SG&A	(2,914)	(2,462)	(1,812)
International sales reorganization charges	-	(442)	-
Restructuring and other costs	430	-	-
Patent settlements, net	(695)	-	-
<b>Non-GAAP Operating Expenses</b>	<b>\$ 41,960</b>	<b>\$ 43,929</b>	<b>\$ 38,561</b>



**CIRRUS LOGIC, INC.**  
**CONSOLIDATED CONDENSED BALANCE SHEET**  
(in thousands)

	<b>Jun. 29, 2013</b>	<b>Mar. 30, 2013</b>	<b>Jun. 30, 2012</b>
	(unaudited)		(unaudited)
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 67,170	\$ 66,402	\$ 84,312
Restricted investments	-	-	-
Marketable securities	165,540	105,235	82,359
Accounts receivable, net	63,642	69,289	49,262
Inventories	110,624	119,300	96,790
Deferred tax asset	54,774	64,937	53,139
Other current assets	20,810	19,371	14,574
Total Current Assets	<u>482,560</u>	<u>444,534</u>	<u>380,436</u>
Long-term marketable securities	39,408	64,910	-
Property and equipment, net	99,169	100,623	85,337
Intangibles, net	4,714	4,650	18,457
Goodwill	6,027	6,027	6,027
Deferred tax asset	16,732	16,671	85,721
Other assets	11,289	13,932	9,300
Total Assets	<u>\$ 659,899</u>	<u>\$ 651,347</u>	<u>\$ 585,278</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities			
Accounts payable	\$ 47,341	\$ 60,827	\$ 75,507
Accrued salaries and benefits	13,476	16,592	10,956
Other accrued liabilities	9,532	10,704	9,498
Deferred income on shipments to distributors	4,419	4,956	7,158
Total Current Liabilities	<u>74,768</u>	<u>93,079</u>	<u>103,119</u>
Other long-term obligations	9,706	10,094	4,159
Stockholders' equity:			
Capital stock	1,048,497	1,041,834	1,013,442
Accumulated deficit	(472,180)	(492,741)	(534,682)
Accumulated other comprehensive loss	(892)	(919)	(760)
Total Stockholders' Equity	<u>575,425</u>	<u>548,174</u>	<u>478,000</u>
Total Liabilities and Stockholders' Equity	<u>\$ 659,899</u>	<u>\$ 651,347</u>	<u>\$ 585,278</u>

*Prepared in accordance with Generally Accepted Accounting Principles*