CIRRUS LOGIC INC
Form 10-Q
July 22, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 27, 2015

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from ____ to ____

Commission File Number 0-17795

CIRRUS LOGIC, INC.

(Exact name of registrant as specified in its charter)

| | | |
|---|---|---|
| DELAWARE<br>(State or other jurisdiction of incorporation or organization) | | 77-0024818<br>(I.R.S. Employer Identification No.) |

800 W. 6th Street,
Austin, TX 78701

(Address of principal executive offices)

Registrant’s telephone number, including area code: (512) 851-4000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

The number of shares of the registrant's common stock, $0.001 par value, outstanding as of July 17, 2015 was 63,499,396.

CIRRUS LOGIC, INC.

FORM 10-Q QUARTERLY REPORT

QUARTERLY PERIOD ENDED JUNE 27, 2015

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Part I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

| | June 27, 2015 (unaudited) | March 28, 2015 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 102,531 | $ 76,401 |
| Marketable securities | 120,226 | 124,246 |
| Accounts receivable, net | 120,838 | 112,608 |
| Inventories | 126,195 | 84,196 |
| Deferred tax assets | 5,276 | 18,559 |
| Prepaid assets | 24,019 | 27,093 |
| Other current assets | 8,963 | 8,810 |
| Total current assets | 508,048 | 451,913 |
| | | |
| Long-term marketable securities | 50,629 | 60,072 |
| Property and equipment, net | 152,018 | 144,346 |
| Intangibles, net | 169,158 | 175,743 |
| Goodwill | 263,583 | 263,115 |
| Deferred tax assets | 25,639 | 25,593 |
| Other assets | 24,578 | 27,996 |
| Total assets | $ 1,193,653 | $ 1,148,778 |
| | | |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | $ 146,370 | $ 112,213 |
| Accrued salaries and benefits | 21,380 | 24,132 |
| Deferred income | 4,736 | 6,105 |
| Software license agreements | 19,697 | 18,711 |
| Other accrued liabilities | 10,939 | 15,417 |
| Total current liabilities | 203,122 | 176,578 |
| | | |
| Long-term liabilities: | | |
| Debt | 160,439 | 180,439 |
| Software license agreements | 18,411 | 26,204 |
| Other long-term liabilities | 11,909 | 8,786 |

| | | |
|---|---|---|
| Total long-term liabilities | 190,759 | 215,429 |
| | | |
| Stockholders' equity: | | |
| Capital stock | 1,170,436 | 1,159,494 |
| Accumulated deficit | (367,691) | (400,613) |
| Accumulated other comprehensive loss | (2,973) | (2,110) |
| Total stockholders' equity | 799,772 | 756,771 |
| Total liabilities and stockholders' equity | $ 1,193,653 | $ 1,148,778 |

The accompanying notes are an integral part of these consolidated condensed financial statements.

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CIRRUS LOGIC, INC.
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(in thousands, except per share amounts; unaudited)

| | Three Months Ended | |
|---|---|---|
| | June 27, 2015 | June 28, 2014 |
| Net sales | $ 282,633 | $ 152,565 |
| Cost of sales | 150,179 | 77,190 |
| Gross profit | 132,454 | 75,375 |
| Operating expenses | | |
| Research and development | 65,835 | 39,777 |
| Selling, general and administrative | 29,119 | 19,683 |
| Patent agreement, net | (12,500) | - |
| Total operating expenses | 82,454 | 59,460 |
| Income from operations | 50,000 | 15,915 |
| Interest income | 254 | 195 |
| Interest expense | (892) | (662) |
| Other income | 136 | 501 |
| Income before income taxes | 49,498 | 15,949 |
| Provision for income taxes | 16,144 | 5,701 |
| Net income | 33,354 | 10,248 |
| | | |
| Basic earnings per share | $ 0.53 | $ 0.17 |
| Diluted earnings per share | $ 0.50 | $ 0.16 |
| Basic weighted average common shares outstanding | 63,274 | 62,032 |
| Diluted weighted average common shares outstanding | 66,410 | 64,688 |

The accompanying notes are an integral part of these consolidated condensed financial statements.

CIRRUS LOGIC, INC.
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands, except per share amounts; unaudited)

| | Three Months Ended | |
|---|---|---|
| | June 27, 2015 | June 28, 2014 |
| Net income | 33,354 | 10,248 |
| Other comprehensive income (loss), before tax | | |
| Changes to foreign currency | | |
| Foreign currency translation | (783) | - |
| Changes to available-for-sale securities | | |
| Unrealized gain (loss) on marketable securities | (148) | 100 |
| Changes to pension liabilities | | |
| Reclassification of actuarial loss to net income | 16 | - |
| Benefit (provision) for income taxes | 52 | (35) |
| Comprehensive income | $ 32,491 | $ 10,313 |

The accompanying notes are an integral part of these consolidated condensed financial statements.

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CIRRUS LOGIC, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(in thousands; unaudited)

| | Three Months Ended | |
|---|---|---|
| | June 27, 2015 | June 28, 2014 |
| Cash flows from operating activities: | | |
| Net income | $ 33,354 | $ 10,248 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 13,388 | 4,097 |
| Stock compensation expense | 8,272 | 5,622 |
| Deferred income taxes | 12,769 | 2,134 |
| Loss on retirement or write-off of long-lived assets | 156 | 325 |
| Actuarial loss amortization on defined benefit pension plan | 16 | - |
| Excess tax benefit from employee stock options | - | (3,119) |
| Other non-cash charges | 3,884 | 2,125 |
| Net change in operating assets and liabilities: | | |
| Accounts receivable, net | (8,230) | (13,999) |
| Inventories | (41,999) | (22,259) |
| Other current assets | 2,792 | - |
| Other assets | - | (698) |
| Accounts payable and other accrued liabilities | 20,149 | 24,010 |
| Deferred income | (1,369) | 1,767 |
| Income taxes payable | - | 2,513 |
| Net cash provided by operating activities | 43,182 | 12,766 |
| | | |
| Cash flows from investing activities: | | |
| Proceeds from sale of available for sale marketable securities | 36,017 | 246,865 |
| Purchases of available for sale marketable securities | (22,649) | (9,290) |
| Purchases of property, equipment and software | (10,601) | (3,274) |
| Investments in technology | (1,816) | (112) |
| Purchase of hedge | - | (11,095) |
| (Increase) decrease in deposits and other assets | (232) | 118 |
| Net cash provided by investing activities | 719 | 223,212 |
| | | |
| Cash flows from financing activities: | | |
| Principal payments on long-term revolver | (20,000) | - |
| Debt issuance costs | - | (2,978) |
| Issuance of common stock, net of shares withheld for taxes | 2,661 | 852 |
| Repurchase of stock to satisfy employee tax withholding obligations | (432) | (277) |
| Excess tax benefit from employee stock options | - | 3,119 |
| Net cash (used in) provided by financing activities | (17,771) | 716 |
| | | |
| Net increase in cash and cash equivalents | 26,130 | 236,694 |
| | | |
| Cash and cash equivalents at beginning of period | 76,401 | 31,850 |

| | | |
|---|---|---|
| Cash and cash equivalents at end of period | $ 102,531 | $ 268,544 |

The accompanying notes are an integral part of these consolidated condensed financial statements.

CIRRUS LOGIC, INC.

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(unaudited)

1. Basis of Presentation

The consolidated condensed financial statements have been prepared by Cirrus Logic, Inc. ("Cirrus Logic," "we," "us," "our," or the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission (the "Commission"). The accompanying unaudited consolidated condensed financial statements do not include complete footnotes and financial presentations. As a result, these financial statements should be read along with the audited consolidated financial statements and notes thereto for the year ended March 28, 2015, included in our Annual Report on Form 10-K filed with the Commission on May 27, 2015. In our opinion, the financial statements reflect all material adjustments, including normal recurring adjustments, necessary for a fair presentation of the financial position, operating results and cash flows for those periods presented. The preparation of financial statements in conformity with United States ("U.S.") generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect reported assets, liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates and assumptions. Moreover, the results of operations for the interim periods presented are not necessarily indicative of the results that may be expected for the entire year. Additionally, prior period amounts have been adjusted to conform to current year presentation.

2. Recently Issued Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") No. 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The amendments in this ASU provide guidance in GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The amendments are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The Company is currently evaluating the impact of this ASU and expects no material modifications to its financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (ASC Topic 606). The purpose of this ASU is to converge revenue recognition requirements per GAAP and International Financial Reporting Standards (IFRS). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption not permitted by the FASB; however, in April 2015 the FASB issued for public comment a proposal to delay the effective date of this ASU to annual reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact of this ASU on its consolidated financial position, results of operations and cash flows.

In April 2015, the FASB issued ASU No. 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. ASU 2015-03 is to be applied retrospectively and represents a change in accounting principle. This ASU is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. Earlier adoption is permitted for financial statements that have not been previously issued. The Company is currently evaluating the effect that the adoption of this ASU will have on its financial statements.

In April 2015, the FASB issued ASU No. 2015-04, Compensation – Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets. The ASU is part of the FASB's "Simplification Initiative" to reduce complexity in accounting standards. The FASB decided to permit entities to measure defined benefit plan assets and obligations as of the month-end that is closest to their fiscal year-end. An entity is required to disclose the accounting policy election and the date used to measure defined benefit plan assets and obligations in accordance with the amendments in this update. The amendments in this update are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with earlier application permitted. The Company is currently evaluating the likelihood of adoption and the impact this ASU would have on its financial statements.

3. Marketable Securities

The Company's investments that have original maturities greater than 90 days have been classified as available-for-sale securities in accordance with U.S. GAAP. Marketable securities are categorized on the consolidated condensed balance sheet as short- and long-term marketable securities, as appropriate.

The following table is a summary of available-for-sale securities at June 27, 2015 (in thousands):

| As of June 27, 2015 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value (Net Carrying Amount) |
|---|---|---|---|---|
| Corporate debt securities | $ 157,080 | $ 2 | $ (223) | $ 156,859 |
| U.S. Treasury securities | 11,506 | - | (2) | 11,504 |
| Commercial paper | 2,490 | 2 | - | 2,492 |
| Total securities | $ 171,076 | $ 4 | $ (225) | $ 170,855 |

The Company's specifically identified gross unrealized losses of $225 thousand relates to 43 different securities with total amortized cost of approximately $157.6 million at June 27, 2015. Because the Company does not intend to sell the investments at a loss and the Company will not be required to sell the investments before recovery of its amortized cost basis, it did not consider the investment in these securities to be other-than-temporarily impaired at June 27, 2015. Further, the securities with gross unrealized losses had been in a continuous unrealized loss position for less than 12 months as of June 27, 2015.

The following table is a summary of available-for-sale securities at March 28, 2015 (in thousands):

| As of March 28, 2015 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value (Net Carrying Amount) |
|---|---|---|---|---|
| Corporate debt securities | $ 153,896 | $ 8 | $ (68) | $ 153,836 |
| U.S. Treasury securities | 28,010 | - | (15) | 27,995 |
| Commercial paper | 2,485 | 2 | - | 2,487 |
| Total securities | $ 184,391 | $ 10 | $ (83) | $ 184,318 |

The Company's specifically identified gross unrealized losses of $83 thousand relates to 34 different securities with total amortized cost of approximately $154.3 million at March 28, 2015. Because the Company did not intend to sell the investments at a loss and the Company did not expect to be required to sell the investments before recovery of its amortized cost basis, it did not consider the investment in these securities to be other-than-temporarily impaired at March 28, 2015. Further, the securities with gross unrealized losses had been in a continuous unrealized loss position for less than 12 months as of March 28, 2015.

The cost and estimated fair value of available-for-sale securities by contractual maturities were as follows (in thousands):

| | June 27, 2015 | | March 28, 2015 | |
|---|---|---|---|---|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Within 1 year | $ 120,288 | $ 120,226 | $ 124,275 | $ 124,246 |
| After 1 year | 50,788 | 50,629 | 60,116 | 60,072 |
| Total | $ 171,076 | $ 170,855 | $ 184,391 | $ 184,318 |

## 4. Fair Value of Financial Instruments

The Company has determined that the only assets and liabilities in the Company’s financial statements that are required to be measured at fair value on a recurring basis are the Company’s cash equivalents, investment portfolio, and pension plan assets / liabilities. The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company’s cash equivalents and investment portfolio assets consist of corporate debt securities, money market funds, U.S. Treasury securities, and commercial paper and are reflected on our consolidated condensed balance sheets under the headings cash and cash equivalents, marketable securities, and long-term marketable securities. The Company determines the fair value of its investment portfolio assets by obtaining non-binding market prices from its third-party portfolio managers on the last day of the quarter, whose sources may use quoted prices in active markets for identical assets (Level 1 inputs) or inputs other than quoted prices that are observable either directly or indirectly

(Level 2 inputs) in determining fair value.

The Company’s long-term revolving facility, described in Note 8, bears interest at a base rate plus applicable margin or LIBOR plus applicable margin.  As of June 27, 2015, the fair value of the Company’s long-term revolving facility approximates carrying value based on estimated margin.

As of June 27,  2015 and March 28, 2015,  the Company classified all of its investment portfolio and pension plan assets as Level 1 or Level 2 assets.  The Company has no Level 3 assets or liabilities.  There were no transfers between Level 1, Level 2, or Level 3 measurements for the three month period ending June 27, 2015.

The following table summarizes the fair value of our financial instruments, exclusive of pension plan assets, at June 27, 2015, (in thousands):

| | Quoted Prices in Active Markets for Identical Assets Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Cash equivalents | | | | |
| Money market funds | $ 1,293 | $ - | $ - | $ 1,293 |
| | | | | |
| Available-for-sale securities | | | | |
| Corporate debt securities | $ - | $ 156,859 | $ - | $ 156,859 |
| U.S. Treasury securities | 11,504 | - | - | 11,504 |
| Commercial paper | - | 2,492 | - | 2,492 |
| | $ 11,504 | $ 159,351 | $ - | $ 170,855 |

The fair value of our financial assets at March 28, 2015, was determined using the following inputs (in thousands):

| | Quoted Prices in Active Markets for Identical Assets Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 | Total |
|---|---|---|---|---|
| Cash equivalents | | | | |
| Money market funds | $ 996 | | | |