

Exar Corporation Announces Third Quarter Fiscal 2014 Results

Written by Australian Business

FREMONT, Calif., Jan. 29, 2014 /PRNewswire/ -- Exar Corporation (NYSE: [EXAR](#)), a leading supplier of high performance analog mixed-signal components and data management solutions, today announced financial results for the Company's third quarter of fiscal year 2014, ended December 29, 2013. Revenue of \$30.7 million

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for the third quarter of fiscal year 2014 decreased from \$34.0 million in the previous quarter and \$31.0 million in the same quarter a year ago. On a non-GAAP basis, gross margin was 49% and non-GAAP net income was \$2.0 million, or \$0.04 per fully diluted share. On a GAAP basis, gross margin was 42% and net loss was \$1.6 million, or \$0.03 loss per share.

Louis DiNardo, the Company's President and CEO, commented, "As anticipated, our financial results for the quarter were impacted by supply chain inventory exceeding demand in the networking market. We expect the inventory to be consumed over the next several months and a return to growth in this vibrant market based on our strong position at major OEMs. Design win momentum for our compression and security products is robust and new customers are expected to begin production this quarter. As a result, we are building an outstanding diverse customer base in both the structured and unstructured data compression markets, as well as in network security.

"Our core business in the industrial market remains strong and has been enhanced by the addition of new high performance analog products. Additionally, the products and revenue associated with our recent acquisition of Stretch, Inc. will provide meaningful new customer engagements and revenue in the large and growing surveillance market in the near-term," concluded Mr. DiNardo.

For the fourth quarter of fiscal year 2014 the Company expects total revenue to be in the range of \$30.0 to \$32.0 million and expects non-GAAP gross margin to be in the range of 48% to 50%.

Recent Product and Business Developments:

- Breakthrough Power Management Module XRP9710 and XR9711 provide a fully

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integrated multiple output power supply.

- Industry leading Compression and Security Coprocessor XR9200 delivers 40gbps operation with a PCIe Gen 3 interface for compression and hardware-accelerated encryption.
- High Performance Low Drop Out Regulator XR6274 operates to down to 1 Volt with less than 100mV dropout at 2 amps.
- Acquisition of Stretch, Inc. supports high definition video security solutions for high definition serial data interface.

Company officials will be discussing these results in greater detail in a conference call today, Wednesday, January 29, 2014

at
1:45 p.m. PDT
(
4:45 p.m. EDT
). To access the conference call, please dial (877) 941-1427 or (480) 629-9664. In addition, a live webcast will be available on Exar's

[Investor webpage](#)

. An archive of the webcast will be available after its conclusion.

Exar Corporation designs, develops and markets high-performance, analog mixed-signal integrated circuits and advanced sub-system solutions for the Networking & Storage, Industrial & Embedded Systems, and Communications Infrastructure markets. Exar's product portfolio includes power management and connectivity components, high-performance analog and mixed-signal products, communications products, and network security and storage optimization solutions. Exar has locations worldwide providing real-time customer support. For more information about Exar, visit <http://www.exar.com> or contact: investorrelations@exar.com

-Tables follow-

FINANCIAL COMPARISON

(In thousands, except per share amounts)

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(Unaudited)

Non-GAAP Results

THREE MONTHS ENDED

NINE MONTHS ENDED

□ **DECEMBER 29, 2013** □

□ **SEPTEMBER 29, 2013** □

□ **DECEMBER 30, 2012** □

□ **DECEMBER 29, 2013** □

□ **DECEMBER 30, 2012** □

Net sales

\$ 30,690

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\$ 34,018

\$ 30,999

\$ 97,335

\$ 90,872

Gross margin

48.6%

52.0%

49.0%

51.0%

47.7%

Income from operations

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\$ 1,748

\$ 4,849

\$ 3,560

\$ 11,165

\$ 6,678

Net income

\$ 1,977

\$ 5,135

\$ 4,047

\$ 11,909

\$ 8,346

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Net income per share

Basic

\$ 0.04

\$ 0.11

\$ 0.09

\$ 0.25

\$ 0.18

Diluted

\$ 0.04

\$ 0.10

\$ 0.09

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\$ 0.24

\$ 0.18

GAAP Results

THREE MONTHS ENDED

NINE MONTHS ENDED

□ **DECEMBER 29, 2013** □

□ **SEPTEMBER 29, 2013** □

□ **DECEMBER 30, 2012** □

□ **DECEMBER 29, 2013** □

□ **DECEMBER 30, 2012** □

Net sales

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\$ 30,690

\$ 34,018

\$ 30,999

\$ 97,335

\$ 90,872

Gross margin

41.8%

40.9%

45.8%

43.4%

44.4%

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Income (loss) from operations

\$ (3,321)

\$ (616)

\$ (353)

\$ (3,390)

\$ (1,892)

Net income (loss)

\$ (1,634)

\$ 6,482

\$ 1,523

\$ 5,654

\$ 1,210

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Net income (loss) per share

Basic

\$ (0.03)

\$ 0.14

\$ 0.03

\$ 0.12

\$ 0.03

Diluted

\$ (0.03)

\$ 0.13

\$ 0.03

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\$ 0.12

\$ 0.03

Supplemental Sales Information

(In thousands)

(Unaudited)

By End Market

THREE MONTHS ENDED

NINE MONTHS ENDED

▣ **DECEMBER 29, 2013** ▣

▣ **SEPTEMBER 29, 2013** ▣

▣ **DECEMBER 30, 2012** ▣

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□ **DECEMBER 29, 2013** □

□ **DECEMBER 30, 2012** □

Industrial & Embedded Systems

\$ 18,429

60%

\$ 17,943

53%

\$ 16,119

52%

\$ 52,870

55%

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\$ 48,130

53%

Networking & Storage

7,104

23%

10,273

30%

9,300

30%

27,284

28%

23,391

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26%

Communications Infrastructure

5,089

17%

5,697

17%

5,270

17%

16,762

17%

18,735

20%

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Other

68

-

105

-

310

1%

419

-

616

1%

Net Sales

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\$ 30,690

100%

\$ 34,018

100%

\$ 30,999

100%

\$ 97,335

100%

\$ 90,872

100%

Except for historical information contained herein, this press release and matters discussed on the conference call contain forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These statements are based

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on management's current expectations and beliefs and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. In particular, the statements regarding the demand for our products and the anticipated trends in our sales and profits are forward-looking statements. The forward-looking statements are dependent on certain risks and uncertainties. Therefore, actual outcomes and results may differ materially from what is expressed herein. The Company urges investors to review in detail the risks and uncertainties and other factors described in its Securities and Exchange Commission, or SEC, filings, including, but not limited to, under the captions "Risk Factors", "Forward-Looking Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections of our public reports filed with the SEC, including our Annual Report on Form 10-K for the fiscal year ended March 31, 2013 and the

Quarterly Reports on Form 10-Q for the quarterly periods ended June 30, 2013

and

September 29, 2013

, which are on file with the SEC and are available on our Investor webpage and on the SEC website at

www.sec.gov

. The Company assumes no obligation to update any forward-looking statements or information, which speak as of their respective dates.

The Company's non-GAAP measures exclude charges related to stock-based compensation, amortization of acquired intangible assets and inventory step-up, restructuring charges and exit costs, provisions for dispute resolutions, Merger and Acquisition and related integration costs, certain income tax benefits and credits, certain warranty charges, net change in the fair value of contingent consideration, and related income tax effects on certain excluded items. The Company excludes these items primarily because they are significant special expense and gain estimates, which management separates for consideration when evaluating and managing business operations. The Company's management uses non-GAAP net income and non-GAAP earnings per share to evaluate its current operating results and financial results and to compare them against historical financial results. Additionally, we disclose below the non-GAAP measure of free cash flow, which is derived from our net cash provided (used) by operations, less purchases of fixed assets and IP, plus proceeds from the sale of IP. Management believes these non-GAAP measures are useful to investors because they are frequently used by securities analysts, investors and other interested parties in evaluating the Company and provides further clarity on its profitability.

In addition, the Company believes that providing investors with these non-GAAP measurements enhances their ability to compare the Company's business against that of its many competitors who employ and disclose similar non-GAAP measures. This financial measure may be different from non-GAAP methods of accounting and reporting used by the Company's competitors to

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the extent their non-GAAP measures include or exclude other items. The presentation of this additional information should not be considered a substitute for net income or net income per diluted share or other measures prepared in accordance with GAAP.

EXAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

THREE MONTHS ENDED

NINE MONTHS ENDED

DECEMBER 29,□

SEPTEMBER 29,□

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DECEMBER 30,

DECEMBER 29,

DECEMBER 30,

2013

2013

2012

2013

2012

Net sales

\$ 21,846

\$ 24,978

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\$ 22,235

\$ 70,682

\$ 63,210

Net sales, related party

8,844

9,040

8,764

26,653

27,662

Total net sales

30,690

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34,018

30,999

97,335

90,872

Cost of sales:

Cost of sales (1)

12,393

12,371

11,922

36,576

34,846

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Cost of sales, related party

3,556

4,156

4,005

11,619

12,897

Amortization of purchased intangible assets and inventory step-up

1,898

2,098

801

5,346

2,578

Warranty Reserve

-

1,440

-

1,440

-

Restructuring charges and exit costs

17

24

79

122

160

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Total cost of sales

17,864

20,089

16,807

55,103

50,481

Gross profit

12,826

13,929

14,192

42,232

40,391

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Operating expenses:

Research and development⁽²⁾

6,929

7,136

5,376

20,245

16,598

Selling, general and administrative⁽²⁾

8,829

9,376

8,645

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25,559

24,066

Restructuring charges and exit costs, net

74

384

524

1,389

1,619

Merger and acquisition costs

257

144

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-

866

-

Net change in fair value of contingent consideration

58

(2,495)

-

(2,437)

-

Total operating expenses

16,147

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14,545

14,545

45,622

42,283

Income (loss) from operations

(3,321)

(616)

(353)

(3,390)

(1,892)

Other income and expense, net:

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Interest income and other, net

321

372

586

980

1,906

Interest expense

(39)

(41)

(56)

(117)

(128)

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Total other income and expense, net

282

331

530

863

1,778

Income (loss) before income taxes

(3,039)

(285)

177

(2,527)

(114)

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Provision for (benefit from) income taxes

(1,405)

(6,767)

(1,346)

(8,181)

(1,324)

Net income (loss)

\$ (1,634)

\$ 6,482

\$ 1,523

\$ 5,654

\$ 1,210

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Net income (loss) per share:

Basic

\$ (0.03)

\$ 0.14

\$ 0.03

\$ 0.12

\$ 0.03

Diluted

\$ (0.03)

\$ 0.13

\$ 0.03

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\$ 0.12

\$ 0.03

Shares used in the computation of net income (loss) per share:

Basic

47,529

47,496

45,925

47,277

46,228

Diluted

47,529

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49,150

46,438

48,815

46,623

(1) Equity compensation included in cost of sales

\$ 165

\$ 212

\$ 106

\$ 519

\$ 220

(2) Equity compensation included in R&D

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566

689

328

1,395

437

(3) Equity compensation included in SG&A

1,826

2,722

968

5,353

2,266

EXAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

(Unaudited)

DECEMBER 29,

SEPTEMBER 29,

MARCH 31,

2013

2013

2013

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ASSETS

Current assets:

Cash and cash equivalents

\$ 21,070

\$ 10,051

\$ 14,718

Short-term marketable securities

154,702

174,862

190,587

Accounts receivable (net of allowances of \$570 and \$944)

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21,699

17,236

12,614

Accounts receivable, related party (net of allowances of \$462 and \$346)

1,685

3,223

3,374

Inventories

24,950

19,841

19,430

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Assets held for sale

13,083

13,083

-

Other current assets

3,645

3,474

3,177

Total current assets

240,834

241,770

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243,900

Property, plant and equipment, net

8,784

9,153

24,100

Goodwill

29,573

29,573

10,356

Intangible assets, net

28,063

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30,054

13,338

Other non-current assets

1,442

1,482

1,474

Total assets

\$ 308,696

\$ 312,032

\$ 293,168

LIABILITIES AND STOCKHOLDERS' EQUITY

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Current liabilities:

Accounts payable

\$ 14,824

\$ 12,782

\$ 9,455

Accrued compensation and related benefits

4,352

3,770

3,624

Deferred income and allowances on sales to distributors

1,861

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2,150

2,399

Deferred income and allowances on sales to distributors, related party

8,017

9,056

9,475

Other current liabilities

11,151

14,375

15,215

Total current liabilities

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40,205

42,133

40,168

Long-term lease financing obligations

106

456

1,342

Other non-current obligations

11,530

12,550

11,204

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Total liabilities

51,841

55,139

52,714

Stockholders' equity

256,855

256,893

240,454

Total liabilities and stockholders' equity

\$ 308,696

\$ 312,032

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\$ 293,168

EXAR CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL RECONCILIATION OF GAAP TO NON-GAAP RESULTS

(In thousands, except per share amounts)

(Unaudited)

THREE MONTHS ENDED

NINE MONTHS ENDED

□ DECEMBER 29,□

□ SEPTEMBER 29,□

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□ **DECEMBER 30,**

□ **DECEMBER 29,**

□ **DECEMBER 30,**

2013

2013

2012

2013

2012

□ **Net Sales**

\$ 30,690

\$ 34,018

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\$ 30,999

\$ 97,335

\$ 90,872

□ GAAP gross profit

\$ 12,826

\$ 13,929

\$ 14,192

\$ 42,232

\$ 40,391

□ GAAP gross margin

41.8%

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40.9%

45.8%

43.4%

44.4%

Stock-based compensation

165

212

106

519

220

Amortization of purchased intangible assets and inventory step-up

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1,898

2,098

801

5,346

2,534

Warranty Reserve

-

1,440

-

1,440

-

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Restructuring charges and exit costs

17

24

79

122

160

Non-GAAP gross profit

\$ 14,906

\$ 17,703

\$ 15,178

\$ 49,659

\$ 43,305

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Non-GAAP gross margin

48.6%

52.0%

49.0%

51.0%

47.7%

GAAP operating expenses

\$ 16,147

\$ 14,545

\$ 14,545

\$ 45,622

\$ 42,283

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Stock-based compensation - R&D

566

689

328

1,395

437

Stock-based compensation - SG&A

1,826

2,722

968

5,353

2,266

Amortization of purchased intangible assets

208

247

107

562

334

Restructuring charges and exit costs, net

74

384

524

1,389

1,619

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Merger and acquisition costs

257

144

-

866

-

Provision for dispute resolution

-

-

1,000

-

1,000

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Net change in fair value of contingent consideration

58

(2,495)

-

(2,437)

-

Non-GAAP operating expenses

\$ 13,158

\$ 12,854

\$ 11,618

\$ 38,494

\$ 36,627

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GAAP operating income (loss)

\$ (3,321)

\$ (616)

\$ (353)

\$ (3,390)

\$ (1,892)

Stock-based compensation

2,557

3,623

1,402

7,267

2,923

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Amortization of purchased intangible assets and inventory step-up

2,106

2,345

908

5,908

2,868

Warranty Reserve

-

1,440

-

1,440

-

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Restructuring charges and exit costs, net

91

408

603

1,511

1,779

Merger and acquisition costs

257

144

-

866

-

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Provision for dispute resolution

-

-

1,000

-

1,000

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(2,495)

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Non-GAAP operating income

\$ 1,748

\$ 4,849

\$ 3,560

\$ 11,165

\$ 6,678

GAAP net income (loss)

\$ (1,634)

\$ 6,482

\$ 1,523

\$ 5,654

\$ 1,210

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Stock-based compensation

2,557

3,623

1,402

7,267

2,923

Amortization of purchased intangible assets and inventory step-up

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5,908

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Warranty Reserve

-

1,440

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Restructuring charges and exit costs, net

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1,000

-

1,000

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Net change in fair value of contingent consideration

58

(2,495)

-

(2,437)

-

Income tax effects

(1,458)

(6,812)

(1,389)

(8,300)

(1,434)

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Non-GAAP net income

\$ 1,977

\$ 5,135

\$ 4,047

\$ 11,909

\$ 8,346

GAAP net income (loss) per share

Basic

\$ (0.03)

\$ 0.14

\$ 0.03

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\$ 0.12

\$ 0.03

Diluted

\$ (0.03)

\$ 0.13

\$ 0.03

\$ 0.12

\$ 0.03

Non-GAAP net income (loss) per share

Basic

\$ 0.04

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\$ 0.11

\$ 0.09

\$ 0.25

\$ 0.18

Diluted

\$ 0.04

\$ 0.10

\$ 0.09

\$ 0.24

\$ 0.18

Net cash provided (used) by operations

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\$ (5,409)

\$ 3,569

\$ 3,611

\$ (857)

\$ 3,654

Less purchases of fixed assets and IP

(926)

(400)

(147)

(1,675)

(1,253)

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Add proceeds from sale of IP

-

-

125

125

250

Free cash flow

\$ (6,335)

\$ 3,169

\$ 3,589

\$ (2,407)

\$ 2,651

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For Investor Relations Contact: investorrelations@exar.com , or Laura J. Guerrant-Oiye,
Guerrant Associates Phone: (510) 668 7201

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