



Nordic Semiconductor 1st Quarter 2014

- Total Revenue of MUSD 31.5
- Operating Profit of MUSD 0.8
- Net Profit after tax of MUSD 0.7
- Order Inflow of MUSD 39.7
- Cash Flow from Operations of MUSD 4.1

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Q1 2014 Financial Summary

Amounts in USD million (unaudited)	<u>1st quarter</u>		Change
	2014	2013	
Revenue	31.5	24.7	27%
Order inflow	39.7	23.4	70%
Gross Margin %	51%	47%	
Operating Profit (EBIT)	0.8	0.7	11%
Operating Profit % (EBIT %)	3%	3%	
Net profit after tax	0.7	0.3	101%
Cash flow from operations	4.1	-0.7	N/A
Cash and cash equivalents	33.6	32.3	

Nordic Semiconductor reported strong revenue growth in the first quarter of 2014, as the company expanded its presence into new markets based on sales of its *Bluetooth* Smart solutions.

Total revenue in Q1 2014 was MUSD 31.5, compared with MUSD 24.7 in Q1 2013. Revenue in the first quarter is historically at its lowest level throughout the year, due to the seasonality of demand for electronics components. Revenue growth was driven by higher sales of *Bluetooth* Smart solutions, which increased to MUSD 9.3, or 30% of total revenue during Q1 2014, compared with MUSD 1.9, or 8% of revenue in Q1 2013.

Gross profit was MUSD 16.2, or 51% of revenue, compared with MUSD 11.6, or 47% of revenue during Q1 2013. The increase in gross margin was due to a change in the revenue mix toward smaller new customers.

Total operating expenses including depreciation were MUSD 15.4 in Q1 2014, compared with MUSD 10.9 in Q1 2013. Total operating expenses (non-IFRS) before options and net capitalized R&D expenses were MUSD 13.8 in Q1 2014, compared with MUSD 12.1 in Q1 2013. Options costs (including related payroll taxes) were MUSD 1.7 in Q1 2014, compared with MUSD 0.4 in Q1 2013. R&D capitalization and related depreciation had a net accounting impact of MUSD -0.2 on operating expenses in Q1 2014, compared with a net impact of MUSD -1.6 on operating expense in Q1 2013.

Based on higher revenue and gross margin, the company's Operating Profit (EBIT) grew to MUSD 0.8, compared with MUSD 0.7 in Q1 2013. Net financial items were a gain of approximately MUSD 0.1, compared with a gain of MUSD 0.3 in the prior year.

Profit before tax was MUSD 0.9, compared with MUSD 1.0 in Q1 2013. Income tax expense was MUSD 0.2, or 23% of pretax profit, during Q1 2014. The company's base tax rate is 27%, but the actual rate will fluctuate based on the effect of net financial items, as these items are calculated differently in the parent company's financial reporting (calculated in USD) and its tax reporting (calculated in NOK).

Net profit after tax was MUSD 0.7 in Q1 2014, compared with MUSD 0.3 in Q1 2013. The company's basic earnings per share were USD 0.004 in Q1 2014, compared with USD 0.002 in Q1 2013.



Market segments

Market Segment	1st quarter				01.01.-31.12			
Amounts in USD thousand	2014		2013		2013		2012	
PC accessories	13,946	44.3 %	13,349	54.1 %	68,509	55.1 %	84,461	64.1 %
Mobile/wearable devices	11,377	36.1 %	3,874	15.7 %	26,181	21.0 %	17,822	13.5 %
Home electronic devices	1,096	3.5 %	1,076	4.4 %	5,305	4.3 %	6,399	4.9 %
Installed Sensor networks	3,237	10.3 %	2,281	9.2 %	12,259	9.9 %	6,607	5.0 %
Wireless Components	29,655	94.2 %	20,580	83.4 %	112,255	90.2 %	115,290	87.5 %
ASIC components	1,814	5.8 %	2,565	10.4 %	10,401	8.4 %	15,501	11.8 %
Consulting services	2	0.0 %	1,545	6.3 %	1,734	1.4 %	1,029	0.8 %
Total	31,471	100.0 %	24,690	100.0 %	124,390	100.0 %	131,819	100.0 %

Technology	1st quarter				01.01.-31.12			
Amounts in USD thousand	2014		2013		2013		2012	
Proprietary wireless	20,367	64.7 %	18,674	75.6 %	91,110	73.2 %	112,380	85.3 %
Bluetooth Smart	9,288	29.5 %	1,907	7.7 %	21,145	17.0 %	2,910	2.2 %
ASIC components	1,814	5.8 %	2,565	10.4 %	10,401	8.4 %	15,501	11.8 %
Consulting services	2	0.0 %	1,545	6.3 %	1,734	1.4 %	1,029	0.8 %
Total	31,471	100.0 %	24,690	100.0 %	124,390	100.0 %	131,819	100.0 %

Nordic Semiconductor's total revenue increased by 27% to MUS\$ 31.5 in Q1 2014. Sales of wireless components grew by 44%, but were partly offset by lower sales of ASICs and consulting. Growth was driven by demand for *Bluetooth* Smart solutions within the mobile/wearable device category.

PC/tablet accessories

Sales to the PC/tablet accessory segment (i.e., wireless mice / keyboards, presentation tools) were MUS\$ 13.9, compared with MUS\$ 13.3 in Q1 2013. Demand from PC accessories customers has stabilized during the last few quarters, after falling during the prior few years.

Mobile/wearable devices

Revenue from the mobile/wearable device segment (i.e., portable electronics such as sports / health monitoring devices, hearing aids, mobile phone accessories, proximity tags and smartwatches) was a record high MUS\$ 11.4, an increase of 194% from last year. The segment has benefited greatly by growing demand for wearable electronics featuring *Bluetooth* Smart technology.

Home electronic devices

Sales within Home electronic devices (i.e., wireless solutions for appliances such as TV's / set-top box remotes, game controllers, toys and charging units) was MUS\$ 1.1, in line with last year. The company expects new product releases within *Bluetooth* Smart toys and home appliances to drive growth in this segment.

Installed sensor networks

Revenue from Other sensor networks (i.e., RFID / security systems, industrial automation, automotive sensors) were MUS\$ 3.2, an increase of 42% from last year. Very strong growth in sales of RFID solutions (access control) drove revenue during the quarter.

ASIC components / consulting

ASIC components and consulting revenue was MUS\$ 1.8, compared with MUS\$ 4.1 in the prior year. Nordic Semiconductor has made a strategic decision not to invest further in acquiring new customers within this segment, and is currently fulfilling demand from existing customers only.



Balance Sheet and Cash Flow

As of 31 March 2014, Nordic Semiconductor had total assets of MUSD 112.2, of which MUSD 88.5 were current assets. Total liabilities were MUSD 32.1, of which MUSD 22.4 were current liabilities. Total Shareholders' equity was MUSD 80.1, which represents an equity ratio of 71%.

Cash flow from operations was an inflow of MUSD 4.1 in Q1 2014, compared with an outflow of MUSD -0.7 in Q1 2013. The company paid a large installment of MUSD 3.3 in 2013 income taxes during Q1 2014, which negatively affected cash flow from operations.

Cash flow from investments was an outflow of MUSD -2.8, compared with an outflow of MUSD -4.1 in Q1 2013. Capital expenditures were MUSD 2.1, driven by the acquisition of technology licenses. Capitalized development expenses were MUSD 0.7, compared with MUSD 1.8 last year, as the company shifted its R&D efforts from development of current product lines to research activities on future wireless solutions.

Cash flow from financing activities was an inflow of MUSD 6.2, as the company sold 2,190,366 treasury shares to settle the exercise of employee stock options in the company. The stock options had an exercise price of NOK 17.15, and a cap of NOK 37.00. Following the transaction, the company held 200,634 of its own shares in treasury.

The company had a cash balance of MUSD 33.6 at the balance sheet date. The company has additional available liquidity through a line of credit agreement with its primary bank where it may borrow up to MUSD 20 at any time with a rate of LIBOR + 1.15%. The loan facility expires in October 2014. The company had no outstanding borrowing on its line of credit as of the balance sheet date.

Business Outlook

Nordic Semiconductor is a pioneer and market leader within ultra-low power wireless technology, with 200 million IC units sold last year. Nordic's *Bluetooth Smart* and proprietary 2.4 GHz RF solutions enable wireless accessories (e.g., sensors and controls) to operate for years of battery life with an ordinary AA, AAA or coin cell battery pack as power source.

The company expects the market for its ultra-low power technology to grow dramatically in the coming years. The company believes that wireless connectivity will soon become a standard feature in a growing range of electronic devices, including many new types of sensors and controls. Collectively, this growth in connected devices is known as the "internet of things" and is widely recognized as one of the most important new trends in consumer electronics.

The company believes that *Bluetooth Smart* (aka *Bluetooth low energy*) will be a core technology for connecting the "internet of things". *Bluetooth Smart* is a new protocol for ultra-low power wireless communication which is part of the new Bluetooth 4.0 wireless standard, and which Nordic has been closely involved in developing. *Bluetooth Smart* can enable small, battery-powered sensors and accessories to communicate with traditional Bluetooth devices (e.g., mobile phones / PC's / home media centers labeled *Bluetooth Smart Ready*), while minimizing power consumption.

Bluetooth Smart Ready was first released in smartphones in late-2011, and has since been sold in nearly one billion PC's, handsets and tablets. By 2015, over two billion mobile phones, PC's, and



home media centers are expected to be sold each year with *Bluetooth* Smart Ready solutions (source: ABI research). As the ecosystem of these *Bluetooth* Smart Ready mobile phones, PC's and home media centers expands, this creates a major market opportunity for new wireless accessories to connect with these devices using Nordic's *Bluetooth* Smart technology.

Nordic Semiconductor has been actively involved in the development of the *Bluetooth* Smart wireless standard since its origin as a Nokia initiative in 2006, and has released a *Bluetooth* Smart solution with industry-leading specifications.

In June 2011, Nordic's contribution to the Bluetooth organization was recognized with an appointment to its Board, where it now participates with Apple, Intel, Motorola, Lenovo, Nokia, Microsoft, Ericsson AB, Toshiba, LG and CSR on the Board of Directors. In December 2012, Nordic's Chief Technology Officer Svein-Egil Nielsen was elected Chairman of the Bluetooth SIG Board.

The Board and Chairman positions present an excellent opportunity for Nordic Semiconductor to help drive the development of the Bluetooth standard and to profile the company as it markets its *Bluetooth* Smart technology to new customers.

Based on its *Bluetooth* Smart and proprietary 2.4 GHz wireless solutions, the company expects the following growth opportunities to emerge across its key business segments:

- PC/tablet accessories: Despite recent weakness in the PC market, Nordic continues to view the market for PC accessories as a business opportunity, as wireless accessories grow in popularity. The company estimates that only approximately 20% of PC buyers are purchasing a wireless mouse/keyboard with a new PC (including aftermarket purchases), leaving a large unaddressed market for wireless accessories among PC users.

In addition to PC accessories, *Bluetooth* Smart technology also creates new opportunities for Nordic to address the tablet accessory market. Currently, many tablets cannot connect with ultra-low power wireless accessories, as they do not contain ports for inserting a proprietary 2.4 GHz USB dongle. Therefore, they are limited to communicating with established wireless standards such as Basic Data Rate ("classic") Bluetooth or WiFi. Due to significantly higher power consumption, these wireless standards are not optimal for connecting with small battery-powered sensor applications such as wireless keyboards.

As tablets implement *Bluetooth* Smart Ready technology, these devices will soon connect with ultra-low power *Bluetooth* Smart keyboards and other accessories. These keyboards will enable tablets to be used much more effectively for productivity applications (such as writing or work activities) in addition to more casual use.

- Mobile/wearable devices (includes wearable electronics such as sports / health monitoring devices and hearing aids, and portable electronics such as mobile phone accessories, and proximity sensors):

Nordic considers the market for mobile/wearable technology to be its largest business opportunity during the next few years based on the explosive growth of smartphones and related applications. The smartphone is an ideal device to connect with wireless accessories due to its huge market volumes, portability, compatibility with wireless standards, highly



functional screen and touch interface, and ease of downloading new software (“apps”) for interacting with a wireless device.

As smartphones adopt *Bluetooth Smart Ready* technology, many new *Bluetooth Smart* wireless accessories are being released to connect with this growing installed base of compatible devices. The potential applications for these *Bluetooth Smart* mobile accessories (“app-cessories”) are nearly endless, as they encompass any sensor which can transmit data to the smartphone, or any device which the smartphone can control.

For example, the healthcare industry is promoting medical devices with *Bluetooth Smart* technology to enable cost-effective monitoring of a growing elderly population as well as patients with chronic illness. With these devices, patients with conditions such as high blood pressure, diabetes or heart ailments can monitor their condition through a body-worn health sensor connected wirelessly to a mobile handset. The handset can also transfer medical data further (via web services) to a healthcare provider to follow up on the patient’s condition.

In addition to health sensors, many other new low-power wireless applications are currently being developed to connect mobile handsets to watches, ID/security tags, fitness and gaming accessories, to name only a few applications.

- Home electronics devices (includes wireless solutions for appliances such as TV’s / set-top boxes, gaming, toys and wireless charging units): Wireless solutions are currently being implemented in a broad range of home electronic appliances to enable users to interact with these devices via a smartphone or other remote control unit. *Bluetooth Smart* is an ideal wireless solution for many of these embedded applications.

For example, new generations of home media centers (called Connected TV’s) are increasingly providing internet-based services and software apps in addition to the television offering, and will require remote controls with advanced navigation functionality similar to a mouse/keyboard/motion control device to search for content. *Bluetooth Smart* technology provides an excellent remote control solution for Connected TV’s, enabling advanced navigation functionality with high performance and ultra-low power consumption.

In addition to next generation remote controls, *Bluetooth Smart* will allow many other appliances throughout the home to wirelessly connect with users and with each other. Examples include new generations of wireless toys, game controllers and home automation solutions for common household items.

Even battery charging units are now implementing wireless technology. Recently, the Alliance for Wireless Power consortium (A4WP) has developed a standard for a small charging appliance which can wirelessly recharge batteries on a broad range of electronic devices. This standard (called Rezence™) relies on *Bluetooth Smart* technology to wirelessly transfer critical information such as battery type and charge status from the electronic device to the charger. This enables the charger to manage the charge session between the charger and the device. Nordic Semiconductor is an active member of the A4WP consortium, along with mobile phone industry giants such as Samsung, LG and HTC.



- Installed sensor networks (i.e., RFID / security systems, building sensors, industrial automation, automotive sensors): Installed sensor networks were Nordic's fastest growth area during 2013, and represent the largest and most diverse market opportunity in the longer term.

Wireless sensor networks are increasingly being utilized for identifying people and products, and for managing the efficient use of resources and public goods. Examples of such applications include access control, indoor mapping and location services, logistics, and energy management systems for homes and offices.

In addition, sensor networks can provide information about a device's internal operations and its external environment to ensure that problems are quickly identified. Wireless sensors for autos and home appliances, and sensors to manage factory processes are all emerging examples of such applications.

Wireless sensor networks are sometimes referred to as "machine-to-machine" (or "M-to-M") technologies, as they often collect and distribute information from objects rather than people. While this market is still in its earliest stages of development, the potential applications are so numerous that they are impossible to quantify. *Bluetooth* Smart provides a very attractive standard for building these wireless sensor networks, based on its compatibility with a huge existing installed base of smartphones and other devices.

One example of a *Bluetooth* Smart-based sensor network which has gained recent attention is the location beacon (frequently called "iBeacon"). Location beacons featuring *Bluetooth* Smart technology can detect when a user's smartphone is in range and activate information both on the user's smartphone and at the location which has installed the beacons.

For example, location beacons positioned at a retail store can enable customers to upload targeted information on their smartphone such as product information, promotions, and an indoor positioning map when they approach the beacon. In return, the retailer can capture information regarding its customers and their shopping patterns. Finally, information gathered by location beacons can be used to handle mobile payments between the customer's smartphone and the retail location.

In sum, Nordic Semiconductor expects demand for its wireless solutions to grow dramatically in the coming years, as the "internet of things" expands and as wireless connectivity becomes a standard feature in many new products. The company believes that *Bluetooth* Smart technology will be a core technology behind the coming wave of wireless products, as it will enable the products to connect a huge and growing ecosystem of existing *Bluetooth* Smart Ready smartphones, PC's, tablets and TV's.

Nordic Semiconductor has been a pioneer in the field of ultra-low power wireless solutions since 2002, and was one of the founding members of the Nokia initiative which created the *Bluetooth* Smart standard. Today, Nordic Semiconductor is by far the market leader within the ultra-low power wireless segment, with 200 million wireless components sold last year. The company also serves as Chairman of the Board of the *Bluetooth* SIG.



In 2012, Nordic released the latest generation of its ultra-low power wireless solutions, called the nRF51 series. The nRF51 series improves upon the industry-leading specifications of the previous generation of Nordic's products -- with lower power consumption and a unique system-on-chip architecture which simplifies application development and improves processing power. The company has had great success with a broad range of new customers including world-leading consumer electronics companies following the launch of the nRF51 product, and expects to see many new product designs come to market with the nRF51 during the course of 2014.

Based on its market leadership in ultra-low power wireless solutions, its best-in-class product line including the new nRF51 platform, and its highly experienced team of engineers and sales professionals, Nordic Semiconductor is very well-positioned for growth as the wireless market expands into many new product categories.



Condensed financial information for the three months ended 31 March 2014

Consolidated Income Statement

Amounts in USD thousand (unaudited)	1st quarter		01.01 - 31.12	
	2014	2013	2013	2012
Total Revenue	31,471	24,690	124,390	131,819
Cost of materials	(15,296)	(11,993)	(61,840)	(64,891)
Direct project costs	(0)	(1,088)	(1,006)	(332)
Gross profit	16,176	11,609	61,543	66,597
Payroll expenses	(9,736)	(7,155)	(28,741)	(26,410)
Other operating expenses	(4,062)	(2,945)	(14,393)	(13,188)
EBITDA	2,378	1,509	18,409	27,000
Depreciation	(1,580)	(791)	(4,802)	(2,839)
Operating Profit (EBIT)	798	718	13,607	24,161
Net interest	84	95	330	390
Net foreign exchange gains (losses)	(24)	170	231	(562)
Profit before tax	857	984	14,168	23,989
Income tax expense	(195)	(654)	(4,590)	(6,240)
Net profit after tax	662	330	9,577	17,749
Earnings per share				
Basic	0.004	0.002	0.059	0.109
Fully Diluted	0.004	0.002	0.059	0.109
Weighted average number of shares (in '000)				
Basic	162,072	161,877	161,268	163,402
Fully Diluted	164,077	161,877	161,854	163,402

Consolidated statement of comprehensive income

Amounts in USD thousand (unaudited)	1st quarter		01.01 - 31.12	
	2014	2013	2013	2012
Net profit after tax	662	330	9,577	17,749
Actuarial gain/loss recognized in equity	-	-	(943)	3,576
Comprehensive income for the period	662	330	8,634	21,324



Consolidated statement of financial position

Amounts in USD thousand (unaudited)	31.03.14	31.12.13	31.03.13
Capitalized development expenses	7,660	7,498	5,093
Software and other intangible assets	4,279	3,451	2,817
Deferred tax assets	3,077	3,077	2,510
Property assets	669	583	399
Equipment	7,631	7,464	4,930
Other long-term assets	384	759	780
Non-current assets	23,699	22,832	16,528
Inventory	24,253	22,167	13,282
Accounts receivable	27,109	30,047	23,786
Other short term receivables	3,532	2,703	4,636
Cash and cash equivalents	33,560	26,082	32,266
Current assets	88,454	81,000	73,970
TOTAL ASSETS	112,153	103,832	90,498
Shareholders' equity	80,050	72,244	63,138
Pension liability	9,662	10,090	8,279
Non-current liabilities	9,662	10,090	8,279
Accounts payable	8,659	6,261	5,391
Income taxes payable	1,785	4,822	3,686
Public duties	4,720	2,405	1,152
Short-term loan facility	-	-	-
Other short-term liabilities	7,277	8,011	8,852
Current liabilities	22,441	21,498	19,081
TOTAL EQUITY AND LIABILITIES	112,153	103,832	90,498

Consolidated statement of changes in equity

Amounts in USD thousand (unaudited)	1st quarter		01.01 - 31.12	
	2014	2013	2013	2012
Equity at beginning of period	72,244	65,826	65,826	46,977
Net profit for the period	662	330	9,577	17,749
Purchase of treasury shares	-	(3,275)	(3,975)	(2,475)
Sale of treasury shares	6,154	-	-	-
Share-based compensation	990	257	1,758	-
Actuarial gain/loss recognized in equity	-	-	(943)	3,576
Equity at end of period	80,050	63,138	72,244	65,826



Consolidated cash flow statement

Amounts in USD thousand (unaudited)	1st quarter		01.01 - 31.12	
	2014	2013	2013	2012
Profit before tax	857	984	14,168	23,989
Taxes paid for the period	(3,259)	(3,993)	(7,041)	(7,649)
Depreciation	1,580	791	4,802	2,839
Change in inventories, trade receivables and payables	3,251	3,659	(10,617)	8,430
Share-based compensation	1,034	363	2,690	-
Movement in pensions	(428)	(867)	(566)	(257)
Other operations related adjustments	1,110	(1,650)	137	3,291
Net cash flows from operating activities	4,146	(712)	3,572	30,644
Capital expenditures (including software)	(2,121)	(2,333)	(8,456)	(1,983)
Capitalized development expenses	(702)	(1,764)	(5,410)	(3,644)
Net cash flows from investing activities	(2,823)	(4,097)	(13,866)	(5,627)
Changes in Treasury stock	6,154	(3,275)	(3,975)	(2,475)
Short-term loan facility	-	-	-	(6,000)
Net cash flows from financing activities	6,154	(3,275)	(3,975)	(8,475)
Net change in cash and cash equivalents	7,478	(8,084)	(14,268)	16,543
Cash and cash equivalents at start of period	26,082	40,350	40,350	23,808
Cash and cash equivalents at end of period	33,560	32,266	26,082	40,350

Notes to the consolidated interim financial statements

Note 1: General

The condensed first quarter interim financial statements for the three months ended 31 March 2014 were approved for publication by the Board of Directors on April 9, 2014.

Nordic Semiconductor ASA develops and sells integrated circuits and related solutions for short-range wireless communication. The company specializes in ultra-low power (ULP) components, based on its proprietary 2.4 GHz RF and *Bluetooth* Smart technology.

The Group is listed on the Oslo Stock Exchange and is a joint stock company registered in Norway. The Company's head office is located at Otto Nielsens vei 12, 7052 Trondheim, Norway.

Note 2: Confirmation of the financial framework

The Group accounts for Nordic Semiconductor ASA and its wholly-owned subsidiary, together called "the Group" have been prepared in accordance with IAS 34 Interim Financial Statements. The interim financial statements for 2014 do not include all the information required for the full year financial statements and shall be read in conjunction with the Group annual accounts for 2013.

Note 3: Important accounting principles

Major accounting principles are described in the Group annual accounts for 2013. The group accounts for 2013 were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, relevant interpretations of this, as well as additional Norwegian disclosure requirements described in the Norwegian GAAP and the Norwegian Securities Trading Act.

Note 4: Use of estimates

In the interim financial statements for 2014, judgements, estimates and assumptions have been applied that may affect the use of accounting principles, book values of assets and liabilities, revenues and expenses. Actual values may differ from these estimates. The major assumptions applied in the interim financial statements for 2014 and the major sources of uncertainty in the statements are similar to those found in the annual accounts for 2013.

Note 5: Seasonality of operations

Nordic Semiconductor's revenues are affected by the seasonality of consumer demand for electronics products which integrate Nordic components. In previous years, this factor has driven higher shipments to distribution during Q2 and Q3 in advance of the winter holiday season. However, in many years, other business or economic factors have been more important than seasonal factors in determining the spread of revenue across quarters.

**Note 6: Segment information**

Detailed segment reporting is included on page 3 of this document. Segments are reported in accordance with IFRS 8.

The Group has only one business, which is the design and sale of integrated circuits and related solutions. The Company classifies its revenues into Wireless components, ASIC components and consulting services. Within Wireless components, the company reports its revenues based on the product category ("hub") with which its components communicate. These include: PC/tablet accessories, Home electronics devices, Mobile/wearable devices, and Installed Sensor networks.

Note 7: Risk management

A description of risk factors can be found in Note 20 of Nordic Semiconductor's 2013 annual report. The company does not anticipate material changes to its risk profile during the remainder of 2014.

Note 8: Events after the balance sheet date

Nothing has happened since the end of the first quarter of 2014 that affects the evaluation of the submitted accounts.