

Edgar Filing: Super Micro Computer, Inc. - Form 10-Q

Super Micro Computer, Inc.
Form 10-Q
November 06, 2014
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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 September 30, 2014
or

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 001-33383

Super Micro Computer, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

980 Rock Avenue
San Jose, CA 95131

(Address of principal executive offices) (Zip Code)
(408) 503-8000

(Registrant's telephone number, including area code)

77-0353939

(I.R.S. Employer
Identification No.)

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, non-accelerated filer or a smaller reporting company. See the 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 (Do not check if a smaller reporting company)

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

As of October 30, 2014 there were 45,976,613 shares of the registrant's common stock, \$0.001 par value, outstanding, which is the only class of common stock of the registrant issued.

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SUPER MICRO COMPUTER, INC.

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FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2014

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PART I: FINANCIAL INFORMATION

Item 1.

SUPER MICRO COMPUTER, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

(unaudited)

	September 30, 2014	June 30, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 117,512	\$96,872
Accounts receivable, net of allowances of \$1,461 and \$1,922 at September 30, 2014 and June 30, 2014, respectively (including amounts receivable from a related party of \$2,416 and \$621 at September 30, 2014 and June 30, 2014, respectively)	194,370	212,738
Inventory	341,541	315,837
Deferred income taxes-current	17,392	16,842
Prepaid income taxes	9,578	5,555
Prepaid expenses and other current assets	4,709	6,237
Total current assets	685,102	654,081
Long-term investments	2,647	2,647
Property, plant and equipment, net	133,067	130,589
Deferred income taxes-noncurrent	4,631	6,154
Other assets	2,828	2,854
Total assets	\$ 828,275	\$796,325
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable (including amounts due to a related party of \$45,145 and \$48,969 at September 30, 2014 and June 30, 2014, respectively)	\$ 222,556	\$219,354
Accrued liabilities	35,704	37,564
Income taxes payable	21,248	11,414
Short-term debt and current portion of long-term debt	34,446	42,554
Total current liabilities	313,954	310,886
Long-term debt-net of current portion	3,033	3,733
Other long-term liabilities	12,814	12,475
Total liabilities	329,801	327,094
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common stock and additional paid-in capital, \$0.001 par value		
Authorized shares: 100,000,000		
Issued shares: 46,132,106 and 45,739,936 at September 30, 2014 and June 30, 2014, respectively	207,442	199,062
Treasury stock (at cost), 445,028 shares at September 30, 2014 and June 30, 2014	(2,030)	(2,030)
Accumulated other comprehensive loss	(66)	(63)
Retained earnings	292,950	272,087
Total Super Micro Computer, Inc. stockholders' equity	498,296	469,056
Noncontrolling interest	178	175
Total stockholders' equity	498,474	469,231
Total liabilities and stockholders' equity	\$ 828,275	\$796,325

See accompanying notes to condensed consolidated financial statements.

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SUPER MICRO COMPUTER, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (in thousands, except per share amounts)
 (unaudited)

	Three Months Ended	
	September 30,	
	2014	2013
Net sales (including related party sales of \$26,578 and \$3,528 in the three months ended September 30, 2014 and 2013, respectively)	\$443,322	\$309,016
Cost of sales (including related party purchases of \$54,403 and \$45,317 in the three months ended September 30, 2014 and 2013, respectively)	374,129	262,224
Gross profit	69,193	46,792
Operating expenses:		
Research and development	21,509	20,236
Sales and marketing	11,002	8,865
General and administrative	5,056	5,648
Total operating expenses	37,567	34,749
Income from operations	31,626	12,043
Interest and other income, net	35	17
Interest expense	(196) (195
Income before income tax provision	31,465	11,865
Income tax provision	10,602	4,166
Net income	\$20,863	\$7,699
Net income per common share:		
Basic	\$0.46	\$0.18
Diluted	\$0.42	\$0.17
Weighted-average shares used in calculation of net income per common share:		
Basic	45,473	42,496
Diluted	49,687	44,602

See accompanying notes to condensed consolidated financial statements.

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SUPER MICRO COMPUTER, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (in thousands)
 (unaudited)

	Three Months Ended September 30,	
	2014	2013
Net income	\$20,863	\$7,699
Other comprehensive income, net of tax:		
Foreign currency translation gain (loss)	(3) 4
Unrealized gain (loss) on investments	—	—
Total other comprehensive income	(3) 4
Comprehensive income	\$20,860	\$7,703

See accompanying notes to condensed consolidated financial statements.

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SUPER MICRO COMPUTER, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended September 30,	
	2014	2013
OPERATING ACTIVITIES:		
Net income	\$20,863	\$7,699
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	1,847	1,393
Stock-based compensation expense	2,980	2,589
Excess tax benefits from stock-based compensation	(705)	(882)
Allowance for doubtful accounts	(54)	849
Provision for inventory	1,660	4
Exchange loss (gain)	(235)	241
Deferred income taxes	973	91
Changes in operating assets and liabilities:		
Accounts receivable, net (including changes in related party balances of \$(1,795) and \$(103) during the three months ended September 30, 2014 and 2013, respectively)	18,422	14,435
Inventory	(27,364)	(144)
Prepaid expenses and other assets	1,547	960
Accounts payable (including changes in related party balances of \$(3,824) and \$(7,948) during the three months ended September 30, 2014 and 2013, respectively)	2,131	(7,732)
Income taxes payable, net	6,726	1,841
Accrued liabilities	(1,903)	(3,207)
Other long-term liabilities	158	170
Net cash provided by operating activities	27,046	18,307
INVESTING ACTIVITIES:		
Restricted cash	10	(14)
Purchases of property, plant and equipment	(2,766)	(1,948)
Net cash used in investing activities	(2,756)	(1,962)
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	4,485	1,535
Minimum tax withholding paid on behalf of an officer for restricted stock awards	—	(651)
Excess tax benefits from stock-based compensation	705	882
Repayment of debt	(8,500)	(700)
Payment of obligations under capital leases	(28)	(5)
Advance (payments) under receivable financing arrangements	(4)	736
Net cash provided by (used in) financing activities	(3,342)	1,797
Effect of exchange rate fluctuations on cash	(308)	278
Net increase in cash and cash equivalents	20,640	18,420
Cash and cash equivalents at beginning of period	96,872	93,038
Cash and cash equivalents at end of period	\$117,512	\$111,458
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$202	\$200
Cash paid for taxes, net of refunds	\$3,123	\$1,807
Non-cash investing and financing activities:		

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Equipment purchased under capital leases	\$256	\$—
Accrued costs for property, plant and equipment purchases	\$2,976	\$1,836

See accompanying notes to condensed consolidated financial statements.

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SUPER MICRO COMPUTER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Summary of Significant Accounting Policies

Organization

Super Micro Computer, Inc. (“Super Micro Computer”) was incorporated in 1993. Super Micro Computer is a global leader in server technology and green computing innovation. Super Micro Computer develops and provides high performance server solutions based upon an innovative, modular and open-standard architecture. Super Micro Computer has operations primarily in San Jose, California, the Netherlands, Taiwan, China and Japan.

Basis of Presentation

The condensed consolidated financial statements reflect the condensed consolidated balance sheets, results of operations, comprehensive income and cash flows of Super Micro Computer, Inc. and its wholly-owned subsidiaries (collectively, the “Company”). All intercompany accounts and transactions have been eliminated in consolidation.

The unaudited condensed consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”) and include the accounts of the Company and its wholly-owned subsidiaries. Certain information and footnote disclosures normally included in financial statements prepared in accordance with United States generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the fiscal year ended June 30, 2014 included in its Annual Report on Form 10-K, as filed with the SEC (the “Annual Report”).

The unaudited condensed consolidated financial statements included herein reflect all adjustments, including normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the consolidated financial position, results of operations and cash flows for the periods presented. The condensed consolidated results of operations for the three months ended September 30, 2014 are not necessarily indicative of the results that may be expected for future quarters or for the fiscal year ending June 30, 2015.

The Company consolidates its investment in Super Micro Business Park, Inc. as it is variable interest entity and the Company is the primary beneficiary. The noncontrolling interest is presented as a separate component from the Company's equity in the equity section of the condensed consolidated balance sheets. Net income attributable to the noncontrolling interest is not presented separately in the condensed consolidated statements of operations and is included in the general and administrative expenses as the amount is not material for any of the fiscal periods presented.

Fair Value of Financial Instruments

The Company accounts for certain assets and liabilities at fair value. Accounts receivable and accounts payable are carried at cost, which approximates fair value due to the short maturity of these instruments. Cash equivalents and long-term investments are carried at fair value. Short-term and long-term debt is carried at amortized cost, which approximates its fair value based on borrowing rates currently available to the Company for loans with similar terms. The hierarchy below lists three levels of fair value based on the extent to which inputs used in measuring fair value are observable in the market. The Company categorizes each of its fair value measurements in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

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• Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

• Level 2 - Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly; and

• Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

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SUPER MICRO COMPUTER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

Net Income Per Common Share

The Company's restricted share awards subject to repurchase and settled in shares of common stock upon vesting have the nonforfeitable right to receive dividends on an equal basis with common stock and therefore are considered participating securities that must be included in the calculation of net income per share using the two-class method. Under the two-class method, basic and diluted net income per common share is determined by calculating net income per share for common stock and participating securities based on participation rights in undistributed earnings. Diluted net income per common share also considers the dilutive effect of in-the-money stock options, calculated using the treasury stock method. Under the treasury stock method, the amount of assumed proceeds from unexercised stock options includes the amount of compensation cost attributable to future services not yet recognized, assumed proceeds from the exercise of the options, and the incremental income tax benefit or liability as if the options were exercised during the period.

Adoption of New Accounting Pronouncements

In March 2013, the FASB issued authoritative guidance associated with a parent company's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. The standard applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. The adoption of this guidance did not have a material impact on the Company's results of operations or financial position.

In July 2013, the FASB issued authoritative guidance associated with the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. It requires a liability related to an unrecognized tax benefit to offset a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if a settlement is required or expected in the event the uncertain tax position is disallowed. The adoption of this guidance did not have a material impact on the Company's results of operations or financial position.

In May 2014, the FASB issued new accounting guidance related to revenue recognition. This new standard replaces all current U.S. GAAP guidance on revenue, eliminates all industry-specific guidance and provides a unified model in determining when and how revenue is recognized. The core principle is that a company 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. This guidance can be applied either retrospectively or as a cumulative-effect adjustment as of the date of adoption. The new standard is effective for the Company on July 1, 2017. The Company is currently evaluating the effect the guidance will have on the Company's financial statement disclosures, results of operations or financial position.

Note 2. Stock-based Compensation and Stockholders' Equity

Equity Incentive Plan

The authorized number of shares that may be issued under 2006 Equity Incentive Plan (the "2006 Plan") automatically increases on July 1 each year through 2016, by an amount equal to (a) 3.0% of shares of stock issued and outstanding on the immediately preceding June 30, or (b) a lesser amount determined by the Board of Directors. The exercise price

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per share for incentive stock options granted to employees owning shares representing more than 10% of the Company at the time of grant cannot be less than 110% of the fair value. Nonqualified stock options and incentive stock options granted to all other persons shall be granted at a price not less than 100% of the fair value. Options generally expire ten years after the date of grant and options vest over four years; 25% at the end of one year and one sixteenth per quarter thereafter. The 2006 Plan is the successor equity incentive plan to the Company's 1998 Stock Option Plan. As of September 30, 2014, the Company had 1,369,499 authorized shares available for future issuance under the 2006 plan.

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SUPER MICRO COMPUTER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

Determining Fair Value

Valuation and amortization method—The Company estimates the fair value of stock options granted using the Black-Scholes-option-pricing formula and a single option award approach. This fair value is then amortized ratably over the requisite service periods of the awards, which is generally the vesting period.

Expected Term—The Company's expected term represents the period that the Company's stock-based awards are expected to be outstanding and was determined based on an analysis of the relevant peer companies' post-vest termination rates and the exercise factors for the stock options granted prior to June 30, 2011. For stock options granted after June 30, 2011, the expected term is based on a combination of the Company's peer group and the Company's historical experience.

Expected Volatility—Expected volatility is based on a combination of the Company's implied and historical volatility.

Expected Dividend—The Black-Scholes valuation model calls for a single expected dividend yield as an input and the Company has no plans to pay dividends.

Risk-Free Interest Rate—The risk-free interest rate used in the Black-Scholes valuation method is based on the U.S. Treasury zero coupon issues in effect at the time of grant for periods corresponding with the expected term of option.

Estimated Forfeitures—The estimated forfeiture rate is based on the Company's historical forfeiture rates and the estimate is revised in subsequent periods if actual forfeitures differ from the estimate.

The fair value of stock option grants for the three months ended September 30, 2014 and 2013 was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Three Months Ended September 30,		
	2014	2013	
Risk-free interest rate	1.76	% 1.54	%
Expected life	5.44 years	5.49 years	
Dividend yield	—	% —	%
Volatility	46.93	% 50.05	%
Weighted-average fair value	\$11.75	\$5.48	

The following table shows total stock-based compensation expense included in the consolidated statements of operations for the three months ended September 30, 2014 and 2013 (in thousands):

	Three Months Ended September 30,	
	2014	2013
Cost of sales	\$207	\$235
Research and development	1,896	1,561
Sales and marketing	365	314
General and administrative	512	479

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Stock-based compensation expense before taxes	2,980	2,589
Income tax impact	(607) (288
Stock-based compensation expense, net	\$2,373	\$2,301

The cash flows resulting from the tax benefits for tax deductions resulting from the exercise of stock options in excess of the compensation expense recorded for those options (excess tax benefits) issued or modified since July 1, 2006 are classified as cash from financing activities. Excess tax benefits for stock options issued prior to July 1, 2006 are classified as cash from operating activities. The Company had \$915,000 and \$1,070,000 of excess tax benefits accounted in the Company's

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SUPER MICRO COMPUTER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

additional paid-in capital in the three months ended September 30, 2014 and 2013, respectively. The Company had excess tax benefits that are classified as cash from financing activities of \$705,000 and \$882,000 in the three months ended September 30, 2014 and 2013, respectively, for options issued since July 1, 2006. Excess tax benefits for stock options issued prior to July 1, 2006 continue to be classified as cash from operating activities.

Stock Option Activity

The following table summarizes stock option activity during the three months ended September 30, 2014 under all stock option plans:

	Options Outstanding	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value (in thousands)
Balance as of June 30, 2014 (7,558,631 shares exercisable at weighted average exercise price of \$11.05 per share)	10,905,602	12.24		
Granted	388,900	26.41		
Exercised	(392,170)	11.44		
Forfeited	(44,584)	17.80		
Balance as of September 30, 2014	10,857,748			