Super Micro Computer, Inc.
Form 10-Q
November 10, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2008

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	**77-0353939**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification Number)**

980 Rock Avenue

San Jose, CA 95131

(Address of principal executive offices)

(408) 503-8000

(Registrant s telephone number, including area code)

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 x 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 x
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 x

As of October 31, 2008 there were 34,650,663 shares of the registrant s common stock, $0.001 par value, outstanding, which is the only class of common or voting stock of the registrant issued.

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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, 2008	June 30, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 64,774	$ 51,481
Short-term investments	57	57
Accounts receivable, net of allowances of $1,171 and $1,173 at September 30, 2008 and June 30, 2008, respectively (including amounts receivable from a related party of $406 and $792 at September 30, 2008 and June 30, 2008, respectively)	46,200	49,501
Inventories, net	100,853	85,683
Deferred income taxes-current	8,652	8,663
Prepaid income taxes	357	2,661
Prepaid expenses and other current assets	1,628	1,837
Total current assets	222,521	199,883
Long-term investments	15,103	16,106
Property, plant and equipment, net	46,017	45,602
Deferred income taxes-noncurrent	995	939
Restricted assets	1,771	1,728
Other assets	125	127
Total assets	$ 286,532	$ 264,385
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable (including amounts due to a related party of $34,822 and $27,717 at September 30, 2008 and June 30, 2008, respectively)	$ 86,872	$ 80,962
Accrued liabilities	19,551	14,790
Income taxes payable	261	189
Advances from receivable financing arrangements	1,438	1,173
Current portion of capital lease obligations	46	57
Current portion of long-term debt	304	320
Total current liabilities	108,472	97,491
Long-term capital lease obligations-net of current portion	96	108
Long-term debt-net of current portion	9,923	9,981
Other long-term liabilities	4,771	4,934
Total liabilities	123,262	112,514
Commitments and contingencies (Note 14)		

Stockholders equity:		
Common stock and additional paid-in capital, $0.001 par value		
Authorized shares: 100,000,000		
Issued and outstanding shares: 33,431,329 and 32,668,731 at September 30, 2008 and June 30, 2008, respectively	73,581	69,434
Deferred stock-based compensation	(502)	(675)
Accumulated other comprehensive loss	(544)	(451)
Retained earnings	90,735	83,563
Total stockholders equity	163,270	151,871
Total liabilities and stockholders equity	$ 286,532	$ 264,385

See accompanying notes to condensed consolidated financial statements.

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SUPER MICRO COMPUTER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share amounts)

(Unaudited)

	Three Months Ended September 30, 2008	2007
Net sales (including related party sales of $1,531 and $2,119 in the three months ended September 30, 2008 and 2007, respectively)	$ 144,051	$ 117,949
Cost of sales (including related party purchases of $31,673 and $22,108 in the three months ended September 30, 2008 and 2007, respectively)	116,215	94,904
Gross profit	27,836	23,045
Operating expenses:		
Research and development	8,085	6,706
Sales and marketing	4,756	3,729
General and administrative	3,155	3,424
Total operating expenses	15,996	13,859
Income from operations	11,840	9,186
Interest income	218	538
Interest expense	(237)	(252)
Income before income tax provision	11,821	9,472
Income tax provision	4,649	3,665
Net income	$ 7,172	$ 5,807
Net income per share:		
Basic	$ 0.22	$ 0.19
Diluted	$ 0.18	$ 0.15
Shares used in per share calculation:		
Basic	33,028,294	30,291,743
Diluted	39,298,993	38,619,263

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, 2008	Three Months Ended September 30, 2007
OPERATING ACTIVITIES:		
Net income	$ 7,172	$ 5,807
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	812	537
Stock-based compensation expense	1,209	870
Allowance for doubtful accounts	3	42
Allowance for sales returns	1,569	1,273
Provision for inventory	575	2,088
Deferred income taxes	15	(1,075)
Gain on short-term investments		(198)
Changes in operating assets and liabilities:		
Accounts receivable, net (including changes in related party balances of $386 and $(406) during the three months ended September 30, 2008 and 2007, respectively)	1,729	(8,544)
Inventories	(15,745)	(8,743)
Prepaid expenses and other current assets	209	(101)
Other assets	1	
Accounts payable (including increases in related party balances of $7,105 and $1,712 during the three months ended September 30, 2008 and 2007, respectively)	6,109	7,072
Income taxes payable, net	4,450	1,736
Accrued liabilities	4,761	494
Other long-term liabilities	(163)	2,741
Net cash provided by operating activities	12,706	3,999
INVESTING ACTIVITIES:		
Restricted assets	(43)	(205)
Proceeds from investments	850	890
Purchases of property, plant and equipment	(1,425)	(580)
Purchases of investments		(4,725)
Net cash used in investing activities	(618)	(4,620)
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	1,037	290
Repayment of long-term debt	(74)	(76)
Payment of obligations under capital leases	(23)	(45)
Advances under receivable financing arrangements	265	(77)
Payment of deferred offering costs		(20)
Net cash provided by financing activities	1,205	72
Net increase (decrease) in cash and cash equivalents	13,293	(549)
Cash and cash equivalents at beginning of period	51,481	50,864

Cash and cash equivalents at end of period	$	64,774	$	50,315
Supplemental disclosure of cash flow information:				
Cash paid for interest	$	237	$	252
Cash paid for taxes	$	359	$	5
Non-cash investing and financing activities:				
Equipment purchased under capital leases	$		$	4
Reversal of deferred stock-based compensation for cancellation of stock options	$	3	$	19
Accrued costs for property, plant and equipment purchases	$	456	$	1,697
Accrued offering costs	$		$	297
Changes in fair values of investments	$	(153)	$	

See accompanying notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Organization

Super Micro Computer, Inc. was incorporated in California on September 28, 1993 and reincorporated in Delaware on March 19, 2007. Super Micro Computer develops and provides high performance server solutions based upon an innovative, modular and open-standard architecture. Super Micro Computer has wholly owned subsidiaries in the Netherlands, Taiwan, Cayman Islands and California, United States.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The unaudited condensed consolidated financial statements included herein have been prepared by Super Micro Computer, Inc. pursuant to the rules and regulations of the United States Securities and Exchange Commission (SEC) and include the accounts of Super Micro Computer, Inc. and its wholly-owned subsidiaries (collectively Super Micro or the Company). 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. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, Risk Factors, Quantitative and Qualitative Disclosures About Market Risk, and the Consolidated Financial Statements and Notes thereto included in the Super Micro Annual Report on Form 10-K for the year ended June 30, 2008 (2008 Form 10-K) filed with the SEC.

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 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, 2008 and 2007 are not necessarily indicative of the results that may be expected for future quarters or for the year ending June 30, 2009.

Principles of Consolidation

The condensed consolidated financial statements reflect the condensed consolidated balance sheets, results of operations and cash flows of Super Micro Computer, Inc. and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Reclassifications

The provision for inventory had been combined with the change in inventory in the prior period condensed consolidated statement of cash flows and has been reclassified to a separate line item to conform with the current period presentation.

Fair Value Measurements

Effective July 1, 2008, the Company adopted certain provisions of Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157), which the Financial Accounting Standards Board (FASB) issued in September 2006. SFAS 157 establishes specific criteria for the fair value measurement of financial and nonfinancial assets and liabilities that are already subject to fair value under current accounting rules. SFAS 157 also requires expanded disclosures related to fair value measurements. In February 2008, the FASB issued Staff Position (FSP) 157-2, which delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008, except for items that are recognized or disclosed at fair value on at least an annual basis. The Company elected to delay the adoption date for the portions of SFAS 157 impacted by FSP 157-2, and, as a result, it adopted a portion of the provisions of SFAS 157. The partial adoption of SFAS 157 was prospective and did not have a significant effect on the Company s consolidated results of operations and financial condition. The Company is currently evaluating the impact of measuring the remaining nonfinancial assets and nonfinancial liabilities under FSP No. 157-2 on its financial position, results of operations and cash flows.

SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. SFAS 157 also requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best information available. Assumptions include the risks inherent in a particular valuation technique (such as a pricing model) and/or the risks inherent in the inputs to the model. The adoption of SFAS 157 did not have a significant impact on the Company s financial statements.

SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and

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the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 are described below:

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.

A financial instrument s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Note 3. Recently Issued Accounting Standards

EITF 07-3

Effective July 1, 2008, the Company adopted Emerging Issues Task Force (EITF) Abstract No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities* (EITF 07-3). EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. The adoption did not have a material impact on the Company s financial position, results of operations and cash flows.

SFAS No. 159

Effective July 1, 2008, the Company adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FASB Statement No. 115* (SFAS 159), which the FASB issued in February 2007. SFAS 159 expands the use of fair value accounting but does not affect existing standards, which require assets or liabilities to be carried at fair value. Under SFAS 159, an entity may elect to use fair value to measure certain eligible items. The fair value option may be elected generally on an instrument-by-instrument basis as long as it is applied to the instrument in its entirety, even if an entity has similar instruments that it elects not to measure based on fair value. Upon adoption, the Company did not elect to adopt the fair value option on eligible items under SFAS 159.

SFAS No. 162

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). SFAS 162 identifies a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP) for non-governmental entities. SFAS 162 is effective 60 days following the Securities and Exchange Commission s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Presenting Fairly in Conformity with Generally Accepted Accounting Principles* . The Company is assessing the impact of the adoption of SFAS 162 on its financial position, results of operations or cash flows.

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Note 4. Stock-based Compensation and Stockholders Equity

Stock Option Plan

In August 2006, the Board of Directors approved the 2006 Equity Incentive Plan (the 2006 Plan) and reserved for issuance 4,000,000 shares of common stock for the granting of stock options, stock appreciation rights, restricted stock awards, restricted stock units and other equity-based awards. The number of shares reserved automatically increase on July 1, 2007 and each subsequent anniversary through 2016, by an amount equal to the smaller of (a) three percent of the number 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 2006 Plan was approved by the stockholders of the Company in January 2007. The exercise price per share for options granted to employees and consultants owning shares representing more than 10% of the Company at the time of grant cannot be less than 110% of the fair value. Incentive an