

MONOLITHIC POWER SYSTEMS INC

Form 10-Q

November 07, 2006

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2006

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 000-51026

Monolithic Power Systems, Inc.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware
(State or other jurisdiction of

77-0466789
(I.R.S. Employer

incorporation or organization)

Identification Number)

983 University Avenue, Building A, Los Gatos, CA 95032 (408) 357-6600

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES, INCLUDING ZIP CODE AND TELEPHONE NUMBER)

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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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act).

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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

There were 30,285,338 shares of the registrant's common stock issued and outstanding as of October 31, 2006.

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(in thousands)

(Unaudited)

	September 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 30,479	\$ 25,091
Short-term investments	39,650	38,814
Accounts receivable, net of allowances of \$227 at 2006 and 2005	9,577	9,537
Inventories	7,385	6,165
Deferred income tax asset - current	3,516	3,671
Prepaid expenses and other current assets	1,094	1,501
Restricted assets - current	3,850	2,938
Total current assets	95,551	87,717
Property and equipment, net	11,247	6,238
Other assets - non-current	469	387
Restricted assets - non-current	6,387	6,433
Total assets	\$ 113,654	\$ 100,775
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,472	\$ 6,583
Accrued compensation and related benefits	3,493	2,974
Accrued income tax payable		2,913
Accrued liabilities	11,618	9,797
Total current liabilities	20,583	22,267
Deferred rent	355	209
Other accrued liability	1,000	
Deferred income tax liability		131
Total liabilities	21,938	22,607
Stockholders' equity:		
Common stock, \$0.001 par value, \$30 and \$29 in 2006 and 2005, respectively; shares authorized: 150,000; shares issued and outstanding: 30,185 and 29,156 in 2006 and 2005, respectively	108,916	98,342
Deferred stock compensation	(801)	(4,544)
Notes receivable from stockholders		(398)
Accumulated other comprehensive loss	(85)	(138)

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Accumulated deficit	(16,314)	(15,094)
Total stockholders' equity	91,716	78,168
Total liabilities and stockholders' equity	\$ 113,654	\$ 100,775

See accompanying notes to condensed consolidated financial statements.

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(in thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended September 30, 2006		For the Nine Months Ended September 30, 2006	
	2006	2005	2006	2005
Revenue	\$ 27,255	\$ 29,706	\$ 78,619	\$ 66,600
Cost of revenue (including stock-based compensation of \$121 and \$408 for the three and nine months ended September 30, 2006 and \$130 and \$390 for the three and nine months ended September 30, 2005)	9,382	10,593	28,588	24,307
Gross profit	17,873	19,113	50,031	42,293
Operating expenses:				
Research and development (including stock-based compensation of \$1,330 and \$4,039 for the three and nine months ended September 30, 2006 and \$569 and \$2,045 for the three and nine months ended September 30, 2005)	5,897	4,045	16,391	10,980
Selling, general and administrative (including stock-based compensation of \$1,518 and \$4,293 for the three and nine months ended September 30, 2006 and \$450 and \$1,733 for the three and nine months ended September 30, 2005)	6,877	4,880	21,003	12,963
Patent litigation	5,765	(4,488)	12,650	17,382
Total operating expenses	18,539	4,437	50,044	41,325
Income (loss) from operations	(666)	14,676	(13)	968
Other income (expense):				
Interest and other income	662	401	1,887	1,094
Interest and other expense	(71)	(74)	(251)	(160)
Total other income (expense), net	591	327	1,636	934
Income (loss) before income taxes	(75)	15,003	1,623	1,902
Income tax provision	1,797	5,641	2,844	628
Net income (loss)	\$ (1,872)	\$ 9,362	\$ (1,221)	\$ 1,274
Basic income (loss) per common share	\$ (0.06)	\$ 0.33	\$ (0.04)	\$ 0.05
Diluted income (loss) per common share	\$ (0.06)	\$ 0.31	\$ (0.04)	\$ 0.04
Shares used in basic net income (loss) per common share	29,736	28,093	29,335	27,794
Dilutive effect of stock options and restricted stock		2,549		2,569
Shares used in diluted net income (loss) per common share	29,736	30,642	29,335	30,363

See accompanying notes to condensed consolidated financial statements.

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(in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2006	2005
Cash flows from operating activities:		
Net (loss) income	\$ (1,221)	\$ 1,274
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	1,963	1,267
Loss on disposal of property and equipment	55	
Deferred income taxes	155	(1,286)
Tax benefit related to stock-based compensation	1,401	386
Excess tax benefit from stock option transactions	(1,164)	
Stock-based compensation	8,740	4,147
Changes in operating assets and liabilities:		
Accounts receivable	(32)	(5,765)
Inventories	(1,220)	(318)
Prepaid expenses and other assets	337	532
Accounts payable	(1,745)	2,599
Accrued liabilities	2,861	5,204
Accrued tax payable	(2,915)	1,149
Accrued compensation and related benefits	435	2,471
Deferred tax liabilities	(131)	
Deferred rent	173	57
Net cash provided by operating activities	7,692	11,717
Cash flows from investing activities:		
Property and equipment purchases	(6,325)	(1,684)
Proceeds from sale of assets	1	1
Purchases of investments	(49,980)	(86,200)
Proceeds from sale of investments	49,143	87,725
Change in restricted assets	(912)	(2)
Net cash used in investing activities	(8,073)	(160)
Cash flows from financing activities:		
Proceeds from stockholder note receivable	398	
Proceeds from issuance of common stock	2,966	1,362
Proceeds from employee stock purchase plan	1,209	(15)
Excess tax benefits from exercise of stock options	1,164	
Net cash provided by financing activities	5,737	1,347
Effect of change in exchange rates	32	(105)
Net increase in cash and cash equivalents	5,388	12,799
Cash and cash equivalents, beginning of period	25,091	32,019

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Cash and cash equivalents, end of period	\$ 30,479	\$ 44,818
Supplemental disclosures of cash flow information:		
Income tax paid	\$ 4,607	\$ 269
Supplemental disclosures of non-cash investing and financing activities:		
Liability accrued for equipment purchase	\$ 623	\$ 33
Unrealized loss on investments	\$	\$ (16)
Restricted stock and stock options granted at less than fair market value	\$ 1,188	\$ 2,207

See accompanying notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. *Basis of Presentation* The accompanying unaudited condensed consolidated financial statements have been prepared by Monolithic Power Systems, Inc. (the Company or MPS) in accordance with the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted in accordance with these rules and regulations. The information in this report should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in its Form 10-K filed with the SEC on March 28, 2006.

In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) necessary to summarize fairly the Company's financial position, results of operations and cash flows for the interim periods presented. The financial statements contained in this Form 10-Q are not necessarily indicative of the results that may be expected for the year ending December 31, 2006 or for any other future period.

2. *Stock-Based Compensation* Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment (SFAS 123(R)). SFAS 123(R) establishes accounting for stock-based awards based on the fair value of the award measured at grant date. Accordingly, stock-based compensation cost is recognized as an expense over the requisite service period. The Company previously recognized expense in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations and provided the required pro forma disclosures of SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123). The Company elected to adopt the modified prospective application method as provided by SFAS 123(R). Under the modified prospective method, prior period results are not restated. The fair value of (i) stock options granted after December 31, 2005 and (ii) the unvested portion of stock options granted after the Company's initial filing of its registration statement on Form S-1 on July 13, 2004 for its initial public offering and before the adoption of SFAS 123(R) are recognized as compensation expense using the Black-Scholes option pricing method. Stock options granted prior to July 13, 2004, the date the Company became a public company, will continue to be accounted for and recognized as compensation expense using the intrinsic value method under APB Opinion No. 25 and related interpretations as required under SFAS 123(R). Prior to the adoption of SFAS No. 123(R), tax benefits in excess of compensation cost recognized were reported as operating cash flows. SFAS No. 123(R) requires excess tax benefits to be reported as a financing cash flow rather than as a reduction of taxes paid.