

SILICON STORAGE TECHNOLOGY INC

Form 10-Q

May 11, 2009

Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2009

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 0-26944

**SILICON STORAGE TECHNOLOGY, INC.**

(Exact name of Registrant as Specified in its Charter)

**California**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**77-0225590**  
(I.R.S. Employer  
Identification Number)

**1020 Kifer Street, Sunnyvale, CA**  
(Address of Principal Executive Offices)

**94086**  
(Zip Code)

**(408) 735-9110**  
(Registrant's Telephone Number, including Area Code)

**1171 Sonora Court, Sunnyvale, CA, 94086**  
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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, a 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. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a 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

Number of shares outstanding of Common Stock, no par value, as of April 30, 2009: 95,746,454

**Table of Contents**

**SILICON STORAGE TECHNOLOGY, INC.  
FORM 10-Q: QUARTER ENDED MARCH 31, 2009**

**TABLE OF CONTENTS**

|  |    |
|--|----|
| <b><u>Part I FINANCIAL INFORMATION</u></b>   | 3  |
| Item 1. <u>Condensed Consolidated Financial Statements (unaudited):</u>                              | 3  |
| <u>Condensed Consolidated Statements of Operations</u>   | 3  |
| <u>Condensed Consolidated Balance Sheets</u>   | 4  |
| <u>Condensed Consolidated Statements of Cash Flows</u>   | 5  |
| <u>Notes to Condensed Consolidated Financial Statements</u>  | 6  |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 16 |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>                            | 25 |
| Item 4. <u>Controls and Procedures</u>   | 25 |
| <b><u>Part II OTHER INFORMATION</u></b>  | 26 |
| Item 1. <u>Legal Proceedings</u>   | 26 |
| Item 1A. <u>Risk Factors</u>   | 27 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | 37 |
| Item 3. <u>Defaults Upon Senior Securities</u>   | 37 |
| Item 4. <u>Submission of Matters to a Vote of Security Holders</u>                                   | 37 |
| Item 5. <u>Other Information</u>   | 37 |
| Item 6. <u>Exhibits</u>  | 37 |
| <u>Signatures</u>  | 38 |

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements****SILICON STORAGE TECHNOLOGY, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(unaudited)****(in thousands, except per share data)**

|  | <b>Three Months Ended March 31,</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2008</b>                         | <b>2009</b> |
| Net revenues:  |                                     |             |
| Product revenues - unrelated parties   | \$ 30,469                           | \$ 14,888   |
| Product revenues - related parties   | 39,229                              | 23,899      |
| Technology licensing - unrelated parties   | 11,305                              | 11,270      |
| Technology licensing - related parties   | 82                                  | 72          |
| Total net revenues   | 81,085                              | 50,129      |
| Cost of revenues:  |                                     |             |
| Cost of revenues - unrelated parties   | 21,299                              | 10,737      |
| Cost of revenues - related parties   | 34,077                              | 23,798      |
| Total cost of revenues   | 55,376                              | 34,535      |
| Gross profit   | 25,709                              | 15,594      |
| Operating expenses:  |                                     |             |
| Research and development   | 15,612                              | 11,414      |
| Sales and marketing  | 7,483                               | 4,960       |
| General and administrative   | 7,183                               | 5,160       |
| Other  |                                     | 329         |
| Total operating expenses   | 30,278                              | 21,863      |
| Loss from operations   | (4,569)                             | (6,269)     |
| Interest income  | 1,302                               | 644         |
| Impairment of investments  | (234)                               |             |
| Other expense, net   | (194)                               | (147)       |
| Loss before provision for (benefit from) income taxes and pro rata share of loss from equity investments | (3,695)                             | (5,772)     |
| Provision for (benefit from) income taxes  | (7,050)                             | 2,874       |
| Income (loss) before pro rata share of loss from equity investments                                      | 3,355                               | (8,646)     |
| Pro rata share of loss from equity investments   | 1,896                               | 595         |
| Net income (loss)  | \$ 1,459                            | \$ (9,241)  |

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|  |    |         |    |        |
|--|----|---------|----|--------|
| Net income (loss) per share - basic            | \$ | 0.01    | \$ | (0.10) |
| Shares used in per share calculation - basic   |    | 103,602 |    | 95,706 |
| Net income (loss) per share - diluted          | \$ | 0.01    | \$ | (0.10) |
| Shares used in per share calculation - diluted |    | 104,014 |    | 95,706 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**Table of Contents****SILICON STORAGE TECHNOLOGY, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(unaudited)****(in thousands)**

|   | <b>December 31,<br/>2008</b> | <b>March 31,<br/>2009</b> |
|---|------------------------------|---------------------------|
| <b>ASSETS</b>   |                              |                           |
| Current assets:   |                              |                           |
| Cash and cash equivalents   | \$ 50,880                    | \$ 34,361                 |
| Short-term available-for-sale investments   | 48,997                       | 55,438                    |
| Trade accounts receivable-unrelated parties, net of allowance for doubtful accounts of \$79 at December 31, 2008 and \$47 at March 31, 2009 | 9,356                        | 10,849                    |
| Trade accounts receivable-related parties   | 10,761                       | 15,522                    |
| Inventories   | 54,159                       | 42,400                    |
| Other current assets  | 4,153                        | 4,487                     |
| <b>Total current assets</b>   | <b>178,306</b>               | <b>163,057</b>            |
| Property and equipment, net   | 18,913                       | 17,014                    |
| Long-term available-for-sale equity investments   | 18,196                       | 21,608                    |
| Long-term available-for-sale debt securities  | 31,848                       | 35,876                    |
| Equity investments, GSMC  | 11,506                       | 11,506                    |
| Equity investments, ACET  | 2,627                        | 2,127                     |
| Equity investments, others  | 10,486                       | 10,790                    |
| Goodwill  | 11,221                       | 11,221                    |
| Intangible assets, net  | 3,573                        | 2,713                     |
| Other assets  | 1,807                        | 1,761                     |
| <b>Total assets</b>   | <b>\$ 288,483</b>            | <b>\$ 277,673</b>         |
| <b>LIABILITIES</b>  |                              |                           |
| Current liabilities:  |                              |                           |
| Trade accounts payable-unrelated parties  | \$ 13,069                    | \$ 10,302                 |
| Trade accounts payable-related parties  | 6,077                        | 6,197                     |
| Accrued expenses and other liabilities  | 14,200                       | 10,254                    |
| Deferred revenue  | 3,841                        | 2,998                     |
| <b>Total current liabilities</b>  | <b>37,187</b>                | <b>29,751</b>             |
| Taxes payable   | 7,760                        | 9,495                     |
| Other liabilities   | 322                          | 113                       |
| <b>Total liabilities</b>  | <b>45,269</b>                | <b>39,359</b>             |
| Commitments (Note 6) and Contingencies (Note 7)   |                              |                           |
| <b>SHAREHOLDERS EQUITY</b>  |                              |                           |
| Common stock  | 412,312                      | 413,583                   |
| Accumulated other comprehensive income  | 14,308                       | 17,378                    |

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|  |            |            |
|--|------------|------------|
| Accumulated deficit                        | (183,406)  | (192,647)  |
| Total shareholders' equity                 | 243,214    | 238,314    |
| Total liabilities and shareholders' equity | \$ 288,483 | \$ 277,673 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**Table of Contents****SILICON STORAGE TECHNOLOGY, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited)****(in thousands)**

|   | <b>Three Months Ended<br/>March 31,</b> |                 |
|---|---|-----------------|
|   | <b>2008</b>                             | <b>2009</b>     |
| <b>Cash flows from operating activities:</b>  |   |                 |
| Net income (loss)   | \$ 1,459                                | \$ (9,241)      |
| <b>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:</b> |   |                 |
| Depreciation and amortization   | 2,749                                   | 2,545           |
| Share-based compensation expense  | 1,113                                   | 810             |
| Provision (credits) for doubtful accounts receivable  | (4)                                     | (32)            |
| Provision for (release from) sales returns  | (117)                                   | (137)           |
| Write-down of inventories and provision for adverse purchase commitments                                  | 1,511                                   | 2,101           |
| Pro rata share of loss from equity investments  | 1,896                                   | 595             |
| Other   | 212                                     | 371             |
| <b>Changes in operating assets and liabilities:</b>   |   |                 |
| Trade accounts receivable - unrelated parties   | 4,372                                   | (1,332)         |
| Trade accounts receivable - related parties   | 17,862                                  | (4,753)         |
| Inventories   | (10,685)                                | 9,434           |
| Other current and non-current assets  | (1,344)                                 | (62)            |
| Trade accounts payable - unrelated parties  | (1,741)                                 | (2,767)         |
| Trade accounts payable - related parties  | 813                                     | 120             |
| Accrued expenses and other liabilities  | (3,149)                                 | (1,900)         |
| Deferred revenue  | 307                                     | (843)           |
| <b>Net cash provided by (used in) operating activities</b>  | <b>15,254</b>                           | <b>(5,091)</b>  |
| <b>Cash flows from investing activities:</b>  |   |                 |
| Purchase of property and equipment  | (1,722)                                 | (306)           |
| Purchases of available-for-sale investments   | (32,404)                                | (23,864)        |
| Sales and maturities of available-for-sale and equity investments   | 2,625                                   | 13,070          |
| Other   | (518)                                   | (436)           |
| <b>Net cash used in investing activities</b>  | <b>(32,019)</b>                         | <b>(11,536)</b> |
| <b>Cash flows from financing activities:</b>  |   |                 |
| Payments on line of credit  | (6,943)                                 |                 |
| Issuance of shares of common stock  | 337                                     | 389             |
| Repurchases of shares of common stock   | (6,164)                                 |                 |
| Principal payments of capital leases  | (299)                                   | (278)           |
| <b>Net cash provided by (used in) financing activities</b>  | <b>(13,069)</b>                         | <b>111</b>      |
| <b>Effect of changes in foreign currency exchange rates on cash</b>                                       |   | <b>(3)</b>      |
| <b>Net decrease in cash and cash equivalents</b>  | <b>(29,834)</b>                         | <b>(16,519)</b> |
| <b>Cash and cash equivalents at beginning of period</b>   | <b>118,157</b>                          | <b>50,880</b>   |



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|  |           |           |
|--|-----------|-----------|
| Cash and cash equivalents at end of period | \$ 88,323 | \$ 34,361 |
|--|-----------|-----------|

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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**Table of Contents**

**SILICON STORAGE TECHNOLOGY, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**1. Basis of Presentation**

In the opinion of management, the accompanying unaudited condensed interim consolidated financial statements contain all adjustments, all of which are normal and recurring in nature, necessary to fairly state our financial position, results of operations and cash flows. The results of operations for the interim periods presented are not necessarily indicative of the results that may be expected for any future interim periods or for the full fiscal year. The condensed consolidated balance sheet at December 31, 2008 was derived from audited financial statements as of that date but does not include all disclosures required by U.S. generally accepted accounting principles, or U.S. GAAP, for complete financial statements. These interim financial statements should be read in conjunction with the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Securities and Exchange Commission on March 20, 2009.

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Recent Accounting Pronouncements*

In April 2009, the Financial Accounting Standards Board, or FASB, issued the following FASB Staff Positions, or FSPs, intended to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities:

FSP No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. FSP No. FAS 157-4 provides additional guidance for estimating fair value in accordance with FASB Statement of Financial Accounting Standards, or SFAS, No. 157, Fair Value Measurements, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly.

FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. FSP No. FAS 115-2 and FAS 124-2 amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities.

FSP No. FAS 107-1 and Accounting Principles Board Opinion No. 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. FSP No. FAS 107-1 amends SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends Accounting Principles Board Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods.

These FSPs are effective for interim and annual periods ending after June 15, 2009. We are still assessing the impact of these positions on our consolidated financial position, results of operations and cash flows.

*Reclassifications*

Certain amounts in prior period financial statements have been reclassified to conform to the current period presentation. These reclassifications did not change previously reported net loss, total assets or shareholders' equity.

**2. Computation of Net Income (Loss) Per Share**

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Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted net income (loss) per share is computed by dividing net income (loss) by the sum of the weighted average number of common shares outstanding and potential common shares (when dilutive).

**Table of Contents**

A reconciliation of the numerator and the denominator of basic and diluted net income (loss) per share are as follows (in thousands):

**Three Months Ended March 31,**