

MONOLITHIC POWER SYSTEMS INC
Form 10-Q
November 02, 2018

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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 September 30, 2018

OR

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

Commission file number: 000-51026

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Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 42,412,000 shares of the registrant's common stock issued and outstanding as of October 29, 2018.

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MONOLITHIC POWER SYSTEMS, INC.

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(in thousands, except par value)

(unaudited)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 131,094	\$ 82,759
Short-term investments	216,754	216,331
Accounts receivable	59,887	38,037
Inventories	136,790	99,281
Other current assets	12,876	12,762
Total current assets	557,401	449,170
Property and equipment, net	147,497	144,636
Long-term investments	5,257	5,256
Goodwill	6,571	6,571
Acquisition-related intangible assets, net	308	951
Deferred tax assets, net	12,852	15,917
Other long-term assets	33,271	30,068
Total assets	\$ 763,157	\$ 652,569
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 27,603	\$ 22,813
Accrued compensation and related benefits	22,996	15,597
Accrued liabilities	34,908	27,507
Total current liabilities	85,507	65,917
Income tax liabilities	31,173	31,621
Other long-term liabilities	36,313	33,024
Total liabilities	152,993	130,562
Commitments and contingencies		

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Stockholders' equity:

Common stock and additional paid-in capital, \$0.001 par value; shares authorized: 150,000; shares issued and outstanding: 42,408 and 41,614, respectively	435,085	376,586
Retained earnings	180,819	143,608
Accumulated other comprehensive income (loss)	(5,740)	1,813
Total stockholders' equity	610,164	522,007
Total liabilities and stockholders' equity	\$ 763,157	\$ 652,569

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**MONOLITHIC POWER SYSTEMS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per-share amounts)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	\$159,975	\$128,939	\$428,885	\$341,499
Cost of revenue	70,957	58,083	190,810	154,377
Gross profit	89,018	70,856	238,075	187,122
Operating expenses:				
Research and development	25,630	21,442	70,720	60,629
Selling, general and administrative	29,552	25,255	85,431	73,219
Litigation expense	343	327	1,513	903
Total operating expenses	55,525	47,024	157,664	134,751
Income from operations	33,493	23,832	80,411	52,371
Interest and other income, net	2,714	1,255	5,387	3,873
Income before income taxes	36,207	25,087	85,798	56,244
Income tax provision	4,639	1,445	8,168	3,112
Net income	\$31,568	\$23,642	\$77,630	\$53,132
Net income per share:				
Basic	\$0.75	\$0.57	\$1.84	\$1.29
Diluted	\$0.71	\$0.54	\$1.75	\$1.22
Weighted-average shares outstanding:				
Basic	42,362	41,458	42,173	41,276
Diluted	44,669	43,486	44,450	43,384
Cash dividends declared per common share	\$0.30	\$0.20	\$0.90	\$0.60

See accompanying notes to unaudited condensed consolidated financial statements.

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(in thousands)

(unaudited)

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Net income	\$31,568	\$23,642	\$77,630	\$53,132
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(4,526)	1,500	(6,999)	3,992
Change in unrealized gain (loss) on available-for-sale securities, net of tax of \$241, \$0, \$241, 0, respectively	491	222	(554)	565
Total other comprehensive income (loss), net of tax	(4,035)	1,722	(7,553)	4,557
Comprehensive income	\$27,533	\$25,364	\$70,077	\$57,689

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**MONOLITHIC POWER SYSTEMS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

(unaudited)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$77,630	\$53,132
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangible assets	9,058	12,092
Amortization of premium on available-for-sale securities	1,122	1,494
Gain on deferred compensation plan investments	(949)	(1,902)
Stock-based compensation expense	45,765	40,759
Deferred taxes, net	3,169	-
Changes in operating assets and liabilities:		
Accounts receivable	(22,752)	(16,505)
Inventories	(37,496)	(28,384)
Other assets	(665)	1,696
Accounts payable	5,978	4,999
Accrued compensation and related benefits	7,838	4,542
Accrued liabilities	4,635	7,276
Income tax liabilities	528	1,249
Net cash provided by operating activities	93,861	80,448
Cash flows from investing activities:		
Property and equipment purchases	(18,057)	(25,108)
Purchases of short-term investments	(86,021)	(102,274)
Proceeds from maturities and sales of short-term investments	83,679	61,678
Contributions to deferred compensation plan, net	(1,396)	(2,124)
Net cash used in investing activities	(21,795)	(67,828)
Cash flows from financing activities:		
Property and equipment purchased on extended payment terms	-	(250)
Proceeds from exercise of stock options	59	129
Proceeds from vesting of restricted stock units	9,625	-
Proceeds from shares issued under the employee stock purchase plan	3,028	2,701
Dividends and dividend equivalents paid	(34,381)	(25,264)
Net cash used in financing activities	(21,669)	(22,684)
Effect of change in exchange rates	(2,062)	1,790
Net increase (decrease) in cash, cash equivalents and restricted cash	48,335	(8,274)
Cash, cash equivalents and restricted cash, beginning of period	82,874	112,813

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Cash, cash equivalents and restricted cash, end of period	\$ 131,209	\$ 104,539
Supplemental disclosures:		
Cash paid for taxes and interest	\$6,388	\$ 1,855
Non-cash investing and financing activities:		
Liability accrued for property and equipment purchases	\$ 1,563	\$ 284
Liability accrued for dividends and dividend equivalents	\$ 15,397	\$ 10,131

See accompanying notes to unaudited condensed consolidated financial statements.

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MONOLITHIC POWER SYSTEMS, INC.

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 (“GAAP”) have been condensed or omitted in accordance with these accounting principles, 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 the Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on March 1, 2018.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) necessary to present 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, 2018 or for any other future periods.

Summary of Significant Accounting Policies

Except for the changes related to revenue recognition discussed in “Recently Adopted Accounting Pronouncements” and in Note 2 below, there have been no other changes to the Company’s significant accounting policies during the three and nine months ended September 30, 2018 as compared to the significant accounting policies described in the Company’s audited consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2017.

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The standard’s core principle is that an entity will recognize revenue when it transfers 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. The Company adopted the standard on January 1, 2018 using the modified retrospective method applied to those contracts which were not completed as of December 31, 2017. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior-period amounts have not been retrospectively adjusted and continue to be reported in accordance with Topic 605, *Revenue Recognition*.

The Company recorded a net increase to the opening balance of retained earnings of \$0.4 million, net of tax, as of January 1, 2018 due to the cumulative effect of initially applying Topic 606, primarily related to the change in revenue recognition for three U.S.-based distributors. Sales to these distributors are transacted under the terms of agreements providing price adjustment rights. Prior to the adoption of Topic 606, revenue and costs related to these sales were deferred until the Company received notification from the distributors that the products had been sold to the end customers and the amount of price adjustments was fixed and finalized. Upon adoption of Topic 606, the transaction price takes into consideration the effect of variable consideration such as price adjustments, which are estimated and recorded at the time the promised goods are transferred to the distributors. Accordingly, effective January 1, 2018, the Company recognizes revenue at the time of shipment to the distributors, adjusted for an estimate of the price adjustments based on management’s review of historical data and other information available at the time. See Note 2 for further discussion.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows - Restricted Cash (Topic 230)*, which requires entities to show the changes in the total of cash, cash equivalents and restricted cash in the statement of cash flows. The Company adopted the standard on January 1, 2018 and applied the guidance retrospectively to all periods presented. See Note 9 for further discussion.

Recent Accounting Pronouncements Not Yet Adopted as of September 30, 2018

In August 2018, the SEC issued Final Rule Release No. 33-10532, *Disclosure Update and Simplification*, which amends certain disclosure requirements, including the presentation of changes in stockholders’ equity and the dividend per share for interim periods. The final rule will be effective on November 5, 2018. The Company is evaluating the impact of the adoption on its disclosures.

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In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement*, which changes certain disclosure requirements, including those related to Level 3 fair value measurements. The standard will be effective for annual reporting periods beginning after December 15, 2019. Early adoption is permitted. The Company is evaluating the impact of the adoption on its disclosures.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350)*, which simplifies the accounting for goodwill impairment. The guidance removes step two of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. The standard will be applied prospectively, and will be effective for annual reporting periods beginning after December 15, 2019. Early adoption is permitted. The Company is evaluating the impact of the adoption on its annual goodwill impairment test.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, which introduces a model based on expected losses to estimate credit losses for most financial assets and certain other instruments. In addition, for available-for-sale debt securities with unrealized losses, the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. The standard will be effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted for annual reporting periods beginning after December 15, 2018. Entities will apply the standard by recording a cumulative-effect adjustment to retained earnings. The Company is evaluating the impact of the adoption on its consolidated financial position, results of operations, cash flows and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires entities to recognize a right-of-use asset and a lease liability on the balance sheets for substantially all leases with a lease term greater than 12 months, including leases currently accounted for as operating leases. In addition, the standard applies to leases embedded in service or other arrangements. The standard requires modified retrospective adoption and will be effective for annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Company will adopt the standard on January 1, 2019. The Company is evaluating the impact of the adoption on its consolidated financial statements and disclosures, and expects to elect certain available transitional practical expedients. The Company anticipates recording assets and liabilities primarily related to its real estate leases on its Consolidated Balance Sheets, with no material impact to its Consolidated Statements of Operations.

2. REVENUE RECOGNITION

Revenue from Product Sales

The following table presents the Company's revenue disaggregated by end market (in thousands, except for percentages):

End Market	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018		2017 (1)		2018		2017 (1)	
	\$	% of Revenue	\$	% of Revenue	\$	% of Revenue	\$	% of Revenue
Computing and storage	\$47,658	29.8 %	\$29,020	22.5 %	\$115,584	27.0 %	\$74,103	21.7 %
Automotive	19,785	12.4	12,857	10.0	57,857	13.5	38,042	11.1
Industrial	24,869	15.5	16,348	12.7	61,544	14.3	46,736	