

STEC, INC.
Form 10-Q
May 10, 2011
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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 March 31, 2011

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 000-31623

STEC, INC.

(Exact name of Registrant as specified in its charter)

Edgar Filing: STEC, INC. - Form 10-Q

CALIFORNIA
(State or other jurisdiction of
incorporation or organization)

33-0399154
(I.R.S. Employer
Identification No.)

3001 Daimler Street

Santa Ana, CA
(Address of principal executive offices)

92705-5812
(Zip Code)

(949) 476-1180

(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 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 definitions of "accelerated filer," "large 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

The number of shares outstanding of the registrant's common stock, par value \$0.001, as of April 29, 2011 was 51,427,897.

Table of Contents

STEC, INC.

**INDEX TO FORM 10-Q FOR THE
QUARTERLY PERIOD ENDED MARCH 31, 2011**

PART I. FINANCIAL INFORMATION

ITEM 1.	<u>FINANCIAL STATEMENTS</u>	1
	<u>UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS AS OF MARCH 31, 2011 AND DECEMBER 31, 2010</u>	1
	<u>UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND MARCH 31, 2010</u>	2
	<u>UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND MARCH 31, 2010</u>	3
	<u>NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</u>	4
ITEM 2.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	10
ITEM 3.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	18
ITEM 4.	<u>CONTROLS AND PROCEDURES</u>	18

PART II. OTHER INFORMATION

ITEM 1.	<u>LEGAL PROCEEDINGS</u>	19
ITEM 1A.	<u>RISK FACTORS</u>	19
ITEM 2.	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	30
ITEM 3.	<u>DEFAULTS UPON SENIOR SECURITIES</u>	31
ITEM 4.	<u>(REMOVED AND RESERVED)</u>	31
ITEM 5.	<u>OTHER INFORMATION</u>	31
ITEM 6.	<u>EXHIBITS</u>	31
	<u>SIGNATURES</u>	33

Except as otherwise noted in this report, STEC, the Company, we, us and our collectively refer to STEC, Inc. and its subsidiaries.

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****STEC, INC.****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS****(in thousands, except per share amounts)**

	March 31, 2011	December 31, 2010
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$ 190,819	\$ 170,457
Accounts receivable, net of allowances of \$4,073 at March 31, 2011 and \$3,853 at December 31, 2010	40,847	47,831
Inventory	81,669	88,968
Other current assets	4,726	4,606
Total current assets	318,061	311,862
Leasehold interest in land	2,584	2,596
Property, plant and equipment, net	33,466	35,037
Goodwill	1,682	1,682
Other long-term assets	4,940	5,173
Deferred income taxes	13,554	9,304
Total assets	\$ 374,287	\$ 365,654
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current Liabilities:		
Accounts payable	\$ 10,408	\$ 25,762
Accrued and other liabilities	15,147	13,470
Total current liabilities	25,555	39,232
Long-term income taxes payable	5,948	4,248
Commitments and contingencies (Note 8)		
Shareholders' Equity:		
Preferred stock, \$0.001 par value, 20,000 shares authorized, no shares issued and outstanding		
Common stock, \$0.001 par value, 100,000 shares authorized, 51,413 shares issued and outstanding as of March 31, 2011 and 51,046 shares issued and outstanding as of December 31, 2010	51	51
Additional paid-in capital	175,589	169,127
Retained earnings	167,144	152,996
Total shareholders' equity	342,784	322,174
Total liabilities and shareholders' equity	\$ 374,287	\$ 365,654

Edgar Filing: STEC, INC. - Form 10-Q

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**STEC, INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per share amounts)

	Three Months Ended March 31,	
	2011	2010
Net revenues	\$ 94,944	\$ 38,809
Cost of revenues	54,671	25,623
Gross profit	40,273	13,186
Sales and marketing	5,666	3,796
General and administrative	7,409	6,939
Research and development	12,000	9,654
Special charges (Note 7)		(66)
Total operating expenses	25,075	20,323
Operating income (loss)	15,198	(7,137)
Other expense	47	134
Income (loss) from operations before income taxes	15,151	(7,271)
Provision (benefit) for income taxes	1,003	(1,918)
Net income (loss)	\$ 14,148	\$ (5,353)
Net income (loss) per share:		
Basic	\$ 0.28	\$ (0.11)
Diluted	\$ 0.27	\$ (0.11)
Shares used in per share computation:		
Basic	51,225	50,314
Diluted	52,691	50,314

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**STEC, INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)**

	Three Months Ended March 31,	
	2011	2010
Cash flows from operating activities:		
Net income (loss)	\$ 14,148	\$ (5,353)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,974	3,058
Loss on sale of property, plant and equipment	34	21
Non-cash special charges		(105)
Accounts receivable provision (benefit)	258	(874)
Deferred income taxes	(3,509)	(4,643)
Stock-based compensation expense	2,771	1,853
Excess tax benefits from share-based payment arrangements	(1,424)	(101)
Change in operating assets and liabilities:		
Accounts receivable	6,726	59,546
Inventory	7,299	(20,378)
Leasehold interest in land	12	11
Other assets	(529)	(1,184)
Accounts payable	(15,066)	(14,391)
Income taxes	4,228	251
Accrued and other liabilities	936	(3,329)
Net cash provided by operating activities	18,858	14,382
Cash flows from investing activities:		
Purchases of short-term investments		(4,998)
Sales of short-term investments		5,000
Purchases of property, plant and equipment	(2,200)	(2,088)
Proceeds from sale of property, plant and equipment	13	203
Net cash used in investing activities	(2,187)	(1,883)
Cash flows from financing activities:		
Proceeds from exercise of stock options	2,267	288
Excess tax benefits from share-based payment arrangements	1,424	101
Net cash provided by financing activities	3,691	389
Net increase in cash and cash equivalents	20,362	12,888
Cash and cash equivalents at beginning of period	170,457	135,658
Cash and cash equivalents at end of period	\$ 190,819	\$ 148,546
Supplemental schedule of noncash investing activities:		
Additions to property, plant and equipment acquired under accounts payable	\$ 279	\$ 66

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**STEC, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****Note 1 Basis of Presentation**

The accompanying interim unaudited condensed consolidated financial statements of STEC, Inc., a California corporation, and its subsidiaries (the Company), have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The unaudited condensed consolidated financial statements include the accounts of the Company and each of its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. In the opinion of management, all adjustments (consisting of normal and recurring adjustments and the special charges discussed in Note 7) considered necessary for a fair statement of the consolidated financial position of the Company as of March 31, 2011, the consolidated results of operations for each of the three months ended March 31, 2011 and 2010, and the consolidated results of cash flows for each of the three months ended March 31, 2011 and 2010 have been included. These interim unaudited condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and, therefore, should be read in conjunction with the consolidated financial statements and related notes contained in the Company's most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC). The December 31, 2010 balances reported herein are derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. The results for the interim periods are not necessarily indicative of results to be expected for the full year.

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities (e.g., sales returns, bad debts, inventory reserves, asset impairments), 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. The Company's reported revenues are net of reserves for price protection, sales returns and sales and marketing incentives. Actual results could differ significantly from those estimates.

Note 2 Sales Concentration

As shown in the table below, customer concentrations of revenues of greater than 10% were as follows:

	For the Three Months Ended March 31,	
	2011	2010
Customer A	28%	*
Customer B	26%	*
Customer C	19%	15%
Customer D	*	35%

* Less than 10%

Sales, which are derived from billings to customers, by geographic region are presented as a percentage of total revenues were as follows:

	For the Three Months Ended March 31,	
	2011	2010
Singapore	46%	23%
United States	33%	28%
Czech Republic	11%	*
Malaysia	*	28%
Other	10%	21%

Edgar Filing: STEC, INC. - Form 10-Q

Total

100%

100%

* Less than 10%

4