

STEC, INC.
Form 10-Q
August 07, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

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)

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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 August 1, 2013 was 46,997,241.

sTec, Inc.

**INDEX TO FORM 10-Q FOR THE
QUARTERLY PERIOD ENDED JUNE 30, 2013**

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

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

sTec, Inc.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

	June 30, 2013	December 31, 2012
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$ 116,280	\$ 158,232
Accounts receivable, net of allowances of \$6,117 at June 30, 2013 and \$6,248 at December 31, 2012	8,239	13,515
Inventory	41,492	41,760
Insurance claim receivable		20,563
Other current assets	7,375	10,212
Total current assets	173,386	244,282
Leasehold interest in land	2,480	2,503
Property, plant and equipment, net	26,866	30,343
Goodwill	1,682	1,682
Long-term intangible assets, net	4,340	5,144
Other long-term assets	5,818	5,817
Total assets	\$ 214,572	\$ 289,771
LIABILITIES AND SHAREHOLDERS EQUITY:		
Current Liabilities:		
Accounts payable	\$ 13,422	\$ 6,818
Accrued and other liabilities	20,217	51,586
Total current liabilities	33,639	58,404
Other long-term liabilities	4,818	6,185
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, 46,981 shares issued and outstanding as of June 30, 2013 and 46,805 shares issued and outstanding as of December 31, 2012	47	47
Additional paid-in capital	157,058	150,263
Retained earnings	19,010	74,872
Total shareholders' equity	176,115	225,182
Total liabilities and shareholders' equity	\$ 214,572	\$ 289,771

See accompanying notes to unaudited condensed consolidated financial statements.

sTec, Inc.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net revenues	\$ 23,454	\$ 40,705	\$ 45,479	\$ 91,120
Cost of revenues	16,891	25,816	33,023	58,139
Gross profit	6,563	14,889	12,456	32,981
Sales and marketing	7,422	6,880	13,976	13,536
General and administrative	16,096	13,315	28,198	22,529
Research and development	13,535	17,471	26,188	33,574
Total operating expenses	37,053	37,666	68,362	69,639
Operating loss	(30,490)	(22,777)	(55,906)	(36,658)
Other (expense) income, net	(26)	(14,342)	15	(14,111)
Loss from operations before income taxes	(30,516)	(37,119)	(55,891)	(50,769)
(Benefit) Provision for income taxes	(121)	12,478	(29)	9,517
Net loss	(30,395)	(49,597)	(55,862)	(60,286)
Comprehensive loss	\$ (30,395)	\$ (49,597)	\$ (55,862)	\$ (60,286)
Net loss per share:				
Basic	\$ (0.65)	\$ (1.07)	\$ (1.19)	\$ (1.30)
Diluted	\$ (0.65)	\$ (1.07)	\$ (1.19)	\$ (1.30)
Shares used in per share computation:				
Basic	46,898	46,340	46,853	46,240
Diluted	46,898	46,340	46,853	46,240

See accompanying notes to unaudited condensed consolidated financial statements.

sTec, Inc.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Six Months Ended June 30,	
	2013	2012
Cash flow from operating activities:		
Net loss	\$ (55,862)	\$ (60,286)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	6,351	7,655
Loss on sale of property, plant and equipment	54	5
Impairment loss		360
Settlement charge		15,000
(Reversal of) provision for accounts receivable allowance	(508)	168
Deferred income taxes	(91)	10,586
Stock-based compensation expense	6,946	7,835
Excess tax benefits from share-based payment arrangements		(907)
Change in operating assets and liabilities:		
Accounts receivable	5,784	11,810
Inventory	268	23,149
Leasehold interest in land	23	22
Other assets	1,746	160
Accounts payable	7,124	10,144
Income taxes	107	657
Accrued and other liabilities	4,011	3,851
Net cash (used in) provided by operating activities	(24,047)	30,209
Cash flows from investing activities:		
Purchase of property, plant and equipment	(2,644)	(6,562)
Net cash used in investing activities	(2,644)	(6,562)
Cash flows from financing activities:		
Payment to class action settlement fund	(15,188)	
Taxes paid related to net share settlement of equity awards	(162)	(307)
Excess tax benefits from share-based payment arrangements		907
Proceeds from exercise of stock options	89	2,071
Net cash (used in) provided by financing activities	(15,261)	2,671
Net (decrease) increase in cash	(41,952)	26,318
Cash and cash equivalents at beginning of period	158,232	180,853
Cash and cash equivalents at end of period	\$ 116,280	\$ 207,171

See accompanying notes to unaudited condensed consolidated financial statements.

sTec, Inc.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Basis of Presentation

The accompanying interim unaudited condensed consolidated financial statements of the Company, have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Securities and Exchange Commission (SEC) 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 intercompany accounts and transactions have been eliminated in consolidation. In the opinion of management, all adjustments (consisting of normal and recurring adjustments) considered necessary for a fair statement of the consolidated financial position of the Company as of June 30, 2013, the consolidated results of operations for the three and six months ended June 30, 2013 and 2012, and the consolidated statements of cash flows for the six months ended June&nb