INTEGRATED DEVICE TECHNOLOGY INC
Form 10-Q
August 07, 2008

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 June 29, 2008

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 No. 0-12695

INTEGRATED DEVICE TECHNOLOGY, INC.

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	**94-2669985**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
6024 SILVER CREEK VALLEY ROAD, SAN JOSE, CALIFORNIA	**95138**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s Telephone Number, Including Area Code: (408) 284-8200

NONE

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 x 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 , large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

x Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨ 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 x

The number of outstanding shares of the registrant s Common Stock, $.001 par value, as of July 25, 2008, was 169,910,816.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
INTEGRATED DEVICE TECHNOLOGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED; IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three months ended	
	June 29, 2008	**July 1, 2007**
Revenues	$ 188,208	$ 199,016
Cost of revenues	103,749	114,128
Gross profit	84,459	84,888
Operating expenses:		
Research and development	43,619	44,699
Selling, general and administrative	32,965	45,114
Total operating expenses	76,584	89,813
Operating income (loss)	7,875	(4,925)
Interest expense	(18)	(41)
Interest income and other, net	1,465	5,852
Income before income taxes	9,322	886
Provision for income taxes	168	1,982
Net income (loss)	$ 9,154	$ (1,096)
Basic net income (loss) per share	$ 0.05	$ (0.01)
Diluted net income (loss) per share	$ 0.05	$ (0.01)
Weighted average shares:		
Basic	171,080	193,254
Diluted	171,366	193,254

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

INTEGRATED DEVICE TECHNOLOGY, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED; IN THOUSANDS)

	June 29, 2008	March 30, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 139,398	$ 131,986
Short-term investments	127,826	107,205
Accounts receivable, net	82,743	83,091
Inventories	79,195	79,954
Deferred tax assets	4,853	4,853
Prepayments and other current assets	18,641	26,081
Total current assets	452,656	433,170
Property, plant and equipment, net	78,538	81,652
Goodwill	1,027,395	1,027,438
Acquisition-related intangibles, net	183,630	204,489
Other assets	34,402	36,504
Total assets	$ 1,776,621	$ 1,783,253
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 44,405	$ 44,655
Accrued compensation and related expenses	21,228	26,621
Deferred income on shipments to distributors	22,685	24,312
Income taxes payable		150
Other accrued liabilities	20,828	19,978
Total current liabilities	109,146	115,716
Deferred tax liabilities	7,873	7,678
Long-term income taxes payable	20,673	20,673
Other long-term obligations	18,574	18,364
Total liabilities	156,266	162,431
Commitments and contingencies (Note 14)		
Stockholders equity:		
Preferred Stock; $0.001 par value: 10,000 shares authorized; no shares issued and outstanding		
Common stock; $0.001 par value: 350,000 shares authorized; 221,374 and 220,677 shares issued; 169,894 and 171,282 shares outstanding at June 29, 2008 and March 30, 2008, respectively	221	221
Additional paid-in capital	2,250,558	2,237,584
Treasury stock; at cost: 51,480 and 49,395 shares at June 29, 2008 and March 30, 2008, respectively	(737,836)	(715,509)
Accumulated other comprehensive income	2,812	3,080
Retained earnings	104,600	95,446
Total stockholders equity	1,620,355	1,620,822
Total liabilities and stockholders equity	$ 1,776,621	$ 1,783,253

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

INTEGRATED DEVICE TECHNOLOGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED; IN THOUSANDS)

	Three months ended June 29, 2008	Three months ended July 1, 2007
Operating activities		
Net income (loss)	$ 9,154	$ (1,096)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	6,566	8,074
Amortization of intangible assets	20,859	31,075
Gain on sale of investment in equity securities		(1,430)
Stock-based compensation expense	8,129	11,830
Deferred income taxes	195	154
Changes in assets and liabilities:		
Accounts receivable, net	348	(3,487)
Inventories	981	3,067
Prepayments and other assets	5,643	(5,850)
Accounts payable	664	4,791
Accrued compensation and related expenses	(5,393)	(10,050)
Deferred income on shipments to distributors	(1,627)	(3,820)
Income taxes receivable and payable	3,285	3,583
Other accrued and long-term liabilities	1,121	200
Net cash provided by operating activities	49,925	37,041
Investing activities		
Purchases of property, plant and equipment	(4,349)	(4,006)
Purchases of short-term investments	(56,971)	(40,418)
Proceeds from sales and maturities of short-term investments	36,502	50,376
Net cash (used in) provided by investing activities	(24,818)	5,952
Financing activities		
Issuance of common stock	4,623	12,218
Repurchases of common stock	(22,327)	(99,793)
Net cash used in financing activities	(17,704)	(87,575)
Effect of exchange rates on cash and cash equivalents	9	120
Net increase (decrease) in cash and cash equivalents	7,412	(44,462)
Cash and cash equivalents at beginning of period	131,986	246,589
Cash and cash equivalents at end of period	$ 139,398	$ 202,127

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

INTEGRATED DEVICE TECHNOLOGY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Integrated Device Technology, Inc. (IDT or the Company) contain all adjustments (which include only normal, recurring adjustments) that are, in the opinion of management, necessary to state fairly the interim financial information included therein. Certain prior period balances have been reclassified to conform to the current period presentation. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts in the Company s financial statements and the accompanying notes. Actual results could differ from those estimates. All references are to the Company s fiscal quarters ended June 29, 2008 (Q1 2009), March 30, 2008 (Q4 2008) and July 1, 2007 (Q1 2008) unless otherwise indicated.

These financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company s Annual Report on Form 10-K for the fiscal year ended March 30, 2008. Operating results for the three months ended June 29, 2008 are not necessarily indicative of operating results for an entire fiscal year.

Note 2

Significant Accounting Policies

Revenue Recognition. The Company s revenue results from semiconductors sold through three channels: direct sales to original equipment manufacturers (OEMs) and electronic manufacturing service providers (EMSs), consignment sales to OEMs and EMSs, and sales through distributors. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, and its ability to collect is reasonably assured. For direct sales, we recognize revenue in accordance with the applicable shipping terms. Revenue related to the sale of consignment inventory is not recognized until the product is pulled from inventory stock by the customer.

For distributors who have stock rotation, price protection and ship from stock pricing adjustment rights, the Company defers revenue and related cost of revenues on sales to these distributors until the product is sold through by the distributor to an end-customer. Subsequent to shipment to the distributor, the Company reduces product pricing through price protection based on market conditions, competitive considerations and other factors. Price protection is granted to distributors on the inventory that they have on hand at the date the price protection is offered. The Company also grants certain credits to its distributors on specifically identified portions of the distributors business to allow them to earn a competitive gross margin on the sale of the Company s products to their end customers. As a result of its inability to estimate these credits, the Company has determined that the sales price to these distributors is not fixed or determinable until the final sale to the end-customer.

In the Asia Pacific (APAC) region, the Company has distributors for which revenue is recognized upon shipment, with reserves recorded for the estimated return and pricing adjustment exposures. The determination of the amount of reserves to be recorded for stock rotation rights requires the Company to make estimates as to the amount of product which will be returned by customers within their limited contractual rights. The Company utilizes historical return rates to estimate the exposure in accordance with Statement of Financial Accounting Standards (SFAS) No. 48, *Revenue Recognition When Right of Return Exists* (SFAS 48). In addition, from time-to-time, the Company is required to give pricing adjustments to distributors for product purchased in a given quarter that remains in their inventory. These amounts are estimated by management based on discussions with customers, assessment of market trends, as well as historical practice.

Based on the terms in the agreements with its distributors and the application of this policy, the Company recognizes revenue once the distributor sells our products to an end-customer for North American and European distributors and recognizes revenue upon shipment to Japanese and other Asian distributors.

Stock-based Compensation: The fair value of employee restricted stock units is equal to the market value of the Company s common stock on the date the award is granted. The Company estimates the fair value of employee stock options and the right to purchase shares under the employee stock purchase plan using the Black-Scholes valuation model, consistent with the provisions of the Financial Accounting Standards Board s (FASB) SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123(R)). Option-pricing models require the input of highly subjective assumptions, including the expected term of options and the expected price volatility of the stock underlying such options. In addition, the Company is required to estimate the number of stock-based awards that will be forfeited due to employee turnover based on historical trends. Finally, the Company capitalizes into inventory a portion of the periodic stock-based compensation expense that relates to employees working in manufacturing activities.

During Q1 2009, the Company updated its analysis of the stock option exercise behavior over the twelve years prior to its adoption of SFAS 123(R) and as a result lowered the expected term to 4.55 years. The interest rate is based on the average U.S. Treasury interest rate in effect during the applicable quarter. The Company believes that the implied volatility of its common stock is an important consideration of current market conditions and a good indicator of the expected volatility of its common stock. However, due to the limited volume of options freely traded over the counter, the Company believes that implied volatility, by itself, is not representative of the expected volatility of its common stock. Therefore, upon adoption of SFAS 123(R), the Company revised the volatility factor used to estimate the fair value of its stock-based awards which now reflects a blend of historical volatility of its common stock and implied volatility of call options and dealer quotes on call options, generally having a term of less than twelve months. The Company has not paid, nor does it have current plans to pay dividends on its common stock in the foreseeable future.

Note 3

Recent Accounting Pronouncements

In April 2008, the FASB issued FASB Staff Position (FSP) 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, Goodwill and Other Intangible Assets. The intent of the position is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the intangible asset. FSP 142-3 is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact of the pending adoption of FSP 142-3 on its consolidated financial statements.

In March 2008, the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS 161). The standard requires additional quantitative disclosures (provided in tabular form) and qualitative disclosures for derivative instruments. The required disclosures include how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows; relative volume of derivative activity; the objectives and strategies for using derivative instruments; the accounting treatment for those derivative instruments formally designated as the hedging instrument in a hedge relationship; and the existence and nature of credit-related contingent features for derivatives. SFAS 161 does not change the accounting treatment for derivative instruments. SFAS 161 is effective in the first quarter of fiscal year 2010. The Company is currently evaluating the impact of the pending adoption of SFAS 161 on its consolidated financial statements.

In February 2008, the FASB issued FSP 157-1, Application of FASB Statement 157 to FASB Statement 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 (FSP 157-1) and FSP 157-2, Effective Date of FASB Statement 157 (FSP 157-2). FSP 157-1 amends SFAS 157 to remove certain leasing transactions from its scope. FSP 157-2 delays the effective date of SFAS 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until the beginning of the first quarter of fiscal year 2010. The Company is currently evaluating the impact that these provisions of SFAS 157 will have on its consolidated financial statements when it is applied to non-financial assets and non-financial liabilities that are not measured at fair value on a recurring basis beginning in the first quarter of fiscal year 2010.

In December 2007, the FASB issued SFAS 141(R), *Business Combinations* (SFAS 141(R)). The standard changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer s income tax valuation allowance. The adoption of SFAS 141(R) will change our accounting treatment for business combinations on a prospective basis beginning in the first quarter of fiscal year 2010.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 provides companies the option (fair value option) to measure certain financial instruments and other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007, although earlier adoption is permitted. Currently, the Company has elected not to adopt the fair value option under this pronouncement.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements* (SFAS 157), which enhances existing guidance for measuring assets and liabilities using fair value. SFAS 157 defines fair value, provides a framework for measuring fair value, and expands disclosures required for fair value measurement. The Company adopted this standard in the first quarter of fiscal 2009. See Fair Value Measurements in Note 8 for further discussion.

Note 4

Net Income (Loss) Per Share

Net income (loss) per share has been computed using weighted-average common shares outstanding in accordance with SFAS 128, *Earnings per Share*.

	Three months ended	
(in thousands)	**June 29, 2008**	**July 1, 2007**
Weighted average common shares outstanding	171,080	193,254
Dilutive effect of employee equity incentive plans	286	
Weighted average common shares outstanding, assuming dilution	171,366	193,254

Stock options to purchase 29.6 million shares and 10.5 million shares for the three month periods ended June 29, 2008 and July 1, 2007, respectively, were outstanding, but were excluded from the calculation of diluted earnings per share because the exercise price of the stock options was greater than the average share price of the common shares and therefore, the effect would have been anti-dilutive. In addition, 0.4 million unvested restricted stock units were excluded from the calculation for the three months ended June 29, 2008 because they were anti-dilutive after considering unrecognized stock-based compensation expense. Net loss per share for the three month periods ended July 1, 2007 is based only on weighted average common shares outstanding. Stock options and restricted stock units of 4.6 million for the three month periods ended July 1, 2007 were excluded from the calculation of diluted earnings per share, as their effect would be anti-dilutive in a net loss period.

Note 5

Stock-Based Employee Compensation

Compensation Expense

The following table summarizes stock-based compensation expense by line items appearing in the Company s Condensed Consolidated Statement of Operations:

	Three months ended	
(in thousands)	**June 29, 2008**	**July 1, 2007**
Cost of revenues	$ 786	$ 1,053
Research and development	5,152	6,731
Selling, general and administrative	2,191	4,046
Total stock-based compensation expense	$ 8,129	$ 11,830

Tax effect on stock-based compensation expense		
Total stock-based compensation expense, net of related tax effects (1)	$ 8,129	$ 11,830

(1) Assumes a zero tax rate for each period presented as the Company has a full valuation allowance.

As stock-based compensation expense recognized in the Condensed Consolidated Statement of Operations is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures in accordance with the provisions of SFAS 123(R). SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company attributes the value of stock-based compensation to expense on an accelerated method.

The following table summarizes stock-based compensation expense associated with each type of award:

	Three months ended	
(in thousands)	**June 29, 2008**	**July 1, 2007**
Employee Stock Options	$ 6,128	$ 10,444
Employee Stock Purchase Plan (ESPP)	878	944
Restricted Stock Units (RSUs)	1,345	580
Change in amounts capitalized in inventory	(222)	(138)
Total stock-based compensation expense	$ 8,129	$ 11,830

Valuation Assumptions

Assumptions used in the Black-Scholes valuation model were as follows:

	Three months ended	
	June 29, 2008	**July 1, 2007**
Stock Option Plans:		
Expected Term	4.55 years	4.65 years
Risk-free interest rate	3.02%	4.80%
Volatility	39%	44%
Dividend Yield	0.0%	0.0%
Weighted-average grant-date fair value per share	$ 4.34	$ 6.47
ESPP:		
Expected Term	0.25 years	