

STEC, INC.
Form 10-Q
August 11, 2008
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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 June 30, 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 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 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 July 31, 2008 was 50,081,444.

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STEC, INC.

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QUARTERLY PERIOD ENDED JUNE 30, 2008**

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

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

	June 30, 2008	December 31, 2007
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$ 62,847	\$ 94,326
Accounts receivable, net of allowances of \$577 at June 30, 2008 and \$944 at December 31, 2007	32,901	34,288
Inventory	78,915	31,556
Deferred income taxes	1,980	1,241
Other current assets	4,210	2,831
Current assets of discontinued operations		197
Total current assets	180,853	164,439
Leasehold interest in land	2,607	2,662
Property, plant and equipment, net	43,169	35,266
Intangible assets	870	1,060
Goodwill	1,682	1,682
Other long-term assets	1,689	997
Deferred income taxes	3,644	3,578
Total assets	\$ 234,514	\$ 209,684
LIABILITIES AND SHAREHOLDERS EQUITY:		
Current Liabilities:		
Accounts payable	\$ 40,243	\$ 16,638
Accrued and other liabilities	8,008	6,169
Liabilities of discontinued operations	62	483
Total current liabilities	48,313	23,290
Long-term income taxes payable	875	849
Commitments and contingencies (Note 7)		
Shareholders' Equity:		
Preferred stock, \$0.001 par value, 20,000,000 shares authorized, no shares outstanding		
Common stock, \$0.001 par value, 100,000,000 shares authorized, 50,081,444 shares issued and outstanding as of June 30, 2008 and 50,433,672 shares issued and outstanding as of December 31, 2007	50	50
Additional paid-in capital	134,464	137,942
Retained earnings	50,812	47,553
Total shareholders' equity	185,326	185,545

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Total liabilities and shareholders' equity	\$ 234,514	\$ 209,684
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See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**STEC, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(in thousands, except per share amounts)****(unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net revenues	\$ 56,199	\$ 43,736	\$ 106,879	\$ 90,940
Cost of revenues	38,029	30,028	72,055	62,807
Gross profit	18,170	13,708	34,824	28,133
Sales and marketing	4,671	4,273	9,112	8,706
General and administrative	5,599	4,082	10,912	7,915
Research and development	4,847	3,493	9,155	7,192
Total operating expenses	15,117	11,848	29,179	23,813
Operating income	3,053	1,860	5,645	4,320
Interest income	420	977	1,166	1,738
Income from continuing operations before provision for income taxes	3,473	2,837	6,811	6,058
Provision for income taxes	2,150	1,120	3,643	2,288
Income from continuing operations	\$ 1,323	\$ 1,717	\$ 3,168	\$ 3,770
Discontinued operations (Note 3):				
Income (loss) from operations of Consumer Division (including gain on disposal of \$8,005)	\$ 149	\$ (14)	\$ 149	\$ 7,267
Provision for income taxes	(58)	(337)	(58)	(2,961)
Income (loss) on discontinued operations	\$ 91	\$ (351)	\$ 91	\$ 4,306
Net income	\$ 1,414	\$ 1,366	\$ 3,259	\$ 8,076
Net income per share:				
Basic:				
Continuing operations	\$ 0.03	\$ 0.04	\$ 0.07	\$ 0.07
Discontinued operations	\$ 0.00	\$ (0.01)	\$ 0.00	\$ 0.09
Total	\$ 0.03	\$ 0.03	\$ 0.07	\$ 0.16
Diluted:				
Continuing operations	\$ 0.03	\$ 0.04	\$ 0.06	\$ 0.07
Discontinued operations	\$ 0.00	\$ (0.01)	\$ 0.00	\$ 0.09
Total	\$ 0.03	\$ 0.03	\$ 0.06	\$ 0.16
Shares used in net income per share computation:				
Basic	49,612	48,682	49,801	49,430

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Diluted	51,225	50,445	51,274	51,698
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See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2008	2007
Cash flow from operating activities:		
Net income	\$ 3,259	\$ 8,076
Income from discontinued operations	(91)	(4,306)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	4,034	2,094
Gain on sale of furniture, fixtures and equipment	(247)	(34)
Impairment loss on assets held for sale	138	
Accounts receivable benefit	(45)	(44)
Deferred income taxes	(805)	305
Stock-based compensation expense	894	405
Change in operating assets and liabilities:		
Accounts receivable	1,432	5,045
Inventory	(47,359)	15,683
Leasehold interest in land	55	(1,440)
Other assets	(909)	(922)
Accounts payable	22,790	(8,756)
Accrued and other liabilities	1,865	385
Net cash flows (used in) provided by discontinued operations	(133)	6,839
Net cash (used in) provided by operating activities	(15,122)	23,330
Cash flows from investing activities:		
Proceeds from sale of Consumer Division		43,043
Purchases of marketable securities	(47,770)	(241,363)
Sales of marketable securities	47,770	241,363
Purchase of property, plant and equipment	(12,296)	(12,331)
Proceeds from sale of property, plant and equipment	311	41
Net cash flows provided by discontinued operations		27
Net cash (used in) provided by investing activities	(11,985)	30,780
Cash flows from financing activities:		
Proceeds from exercise of stock options	5,843	5,725
Tax benefit of employee stock option exercise and vesting of restricted stock units	2,788	1,953
Stock buyback	(13,003)	
Net cash (used in) provided by financing activities	(4,372)	7,678
Net (decrease) increase in cash	(31,479)	61,788
Cash and cash equivalents at beginning of period	94,326	40,907
Cash and cash equivalents at end of period	\$ 62,847	\$ 102,695

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Supplemental schedule of noncash investing activities:

Additions to property, plant and equipment acquired under accounts payable	\$	818	\$
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See accompanying notes to unaudited condensed consolidated financial statements.

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