

Super Micro Computer, Inc.  
Form 10-K  
August 26, 2016  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

---

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended June 30, 2016

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 001-33383

---

Super Micro Computer, Inc.

(Exact name of registrant as specified in its charter)

Delaware 77-0353939

(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

980 Rock Avenue

San Jose, CA 95131

(Address of principal executive offices, including zip code)

(408) 503-8000

(Registrant's telephone number, including area code)

---

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
---------------------	---

Common Stock, \$0.001 par value per share	The NASDAQ Stock Market LLC
---	-----------------------------

Securities registered pursuant to section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 (§229.405 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

Edgar Filing: Super Micro Computer, Inc. - Form 10-K

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 of the Exchange Act) Yes  No

The aggregate market value of the registrant’s Common Stock held by non-affiliates, based upon the closing price of the Common Stock on December 31, 2015, as reported by the NASDAQ Global Select Market, was \$1,312,866,144. Shares of Common Stock held by each executive officer and director and by each person who owns 5% or more of the outstanding Common Stock, based on filings with the Securities and Exchange Commission, have been excluded since such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of August 18, 2016 there were 48,656,429 shares of the registrant’s common stock, \$0.001 par value, outstanding, which is the only class of common stock of the registrant issued.

DOCUMENTS INCORPORATED BY REFERENCE

None

---

Table of Contents

SUPER MICRO COMPUTER, INC.

ANNUAL REPORT ON FORM 10-K  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

TABLE OF CONTENTS

	Page
PART I	
Item 1. <u>Business</u>	<u>2</u>
Item 1A. <u>Risk Factors</u>	<u>9</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>22</u>
Item 2. <u>Properties</u>	<u>22</u>
Item 3. <u>Legal Proceedings</u>	<u>22</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>22</u>
PART II	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>23</u>
Item 6. <u>Selected Financial Data</u>	<u>24</u>
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>41</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>42</u>
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>75</u>
Item 9A. <u>Controls and Procedures</u>	<u>75</u>
Item 9B. <u>Other Information</u>	<u>78</u>
PART III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>78</u>
Item 11. <u>Executive Compensation</u>	<u>84</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>95</u>
Item 13. <u>Certain Relationships and Related Transactions and Director Independence</u>	<u>97</u>
Item 14. <u>Principal Accountant Fees and Services</u>	<u>98</u>
PART IV	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	<u>99</u>
<u>Signatures</u>	<u>100</u>

Unless the context requires otherwise, the words “Super Micro,” “Supermicro,” “we,” “Company,” “us” and “our” in this document refer to Super Micro Computer, Inc. and where appropriate, our wholly owned subsidiaries. Supermicro, the Company logo and our other registered or common law trademarks, service marks, or trade names appearing in this Annual Report on Form 10-K are the property of Super Micro Computer, Inc. or its affiliates. Other trademarks, service marks, or trade names appearing in this Annual Report on Form 10-K are the property of their respective owners.

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended that involve risks and uncertainties. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology including “would,” “could,” “may,” “will,” “should,” “expect,” “intend,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” or “continue,” the negative of these terms or other comparable terminology. In evaluating these statements, you should specifically consider various factors, including the risks described below, under “Item 1A Risk Factors”, and in other parts of this Form 10-K as well as in our other filings with the SEC. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this Annual Report on Form 10-K may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. We cannot guarantee future results, levels of activity, performance or achievements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

PART I

Item 1. Business

Overview

We are a global leader in high performance, high efficiency server technology and innovation. We develop and provide end-to-end green computing solutions to the cloud computing, data center, enterprise IT, big data, high performance computing, or HPC, and Internet of Things, or IoT, / embedded markets. Our solutions range from complete server, storage, blade and workstations to full racks, networking devices, server management software and technology support and services. We offer our customers a high degree of flexibility and customization by providing what we believe to be the industry’s broadest array of server configurations from which they can choose the optimal solution which fits their computing needs. Our server systems, subsystems and accessories are architecturally designed to provide high levels of reliability, quality and scalability, thereby enabling our customers to benefit from improvements in compute performance, density, thermal management and power efficiency which lead to lower overall total cost of ownership.

We perform the majority of our research and development efforts in-house, which increases the efficiency of communication and collaboration between design teams, streamlines the development process and reduces time-to-market. We have developed a set of design principles which allow us to aggregate individual industry standard components and materials to develop proprietary products, such as serverboards, chassis, power supplies, networking and storage devices. This building block approach allows us to provide a broad range of SKUs, and enables us to build and deliver application-optimized solutions based upon customers’ requirements. As of June 30, 2016, we offered over 4,950 SKUs, including SKUs for server and storage systems, serverboards, chassis, power supplies and other system accessories.

We conduct our operations principally from our Silicon Valley headquarters in California and subsidiaries in Taiwan and the Netherlands. We sell our server systems and server subsystems and accessories through our direct sales force

as well as through distributors, including value added resellers and system integrators, and OEMs. During fiscal year 2016, our products were purchased by over 800 customers in 100 countries. We commenced operations in 1993 and have been profitable every year since inception. For fiscal years 2016, 2015 and 2014, our net sales were \$2,215.6 million, \$1,991.2 million and \$1,467.2 million, respectively, and our net income was \$72.0 million, \$101.9 million and \$54.2 million, respectively.

### The Super Micro Solution

We develop and manufacture high performance server solutions based upon an innovative, modular and open architecture. Our primary competitive advantages arise from how we use our integrated internal research and development organization coupled with our deep understanding of complex computing requirements to develop the intellectual property used in our server solutions. These competitive advantages have enabled us to develop a set of design principles and performance specifications that meet industry standard Server System Infrastructure, or SSI, requirements and also incorporate the advanced

2

---

## Table of Contents

functionality and capabilities required by our customers. We believe that our approach provides us with greater flexibility to quickly and efficiently develop new server solutions that are optimized for our customers' specific application requirements. Our modular architectural approach has allowed us to offer our customers what we believe to be the industry's largest array of server systems and subsystems and accessories with performance optimized for their unique applications.

### Flexible and Customizable Server Solutions

We provide flexible and customizable server solutions to address the specific application needs of our customers. Our design principles allow us to aggregate industry standard components and materials to develop optimized server subsystems and accessories, such as serverboards, chassis and power supplies to deliver a broad range of products with superior features. We believe this building block approach allows us to provide a broad range of optimized solution SKUs.

### Rapid Time-to-Market

We are able to reduce the design and development time required to incorporate the latest technologies into the next generation application optimized server solutions. Our in-house design competencies, control of the design of many of the components used within our server systems and our building block architecture enable us to rapidly develop, build and test server systems, subsystems and accessories with unique configurations. As a result, when new technologies are brought to market, we are generally able to quickly design, integrate and assemble solutions with little need to re-engineer other portions of our solution. Our efficient design capabilities allow us to offer our customers server solutions incorporating the latest technology with a better price-to-performance ratio. We work closely with the leading microprocessor vendors and other hardware and software suppliers to coordinate the design of our new products with their product release schedules, thereby enhancing our ability to rapidly introduce new products incorporating the latest technology.

### Improved Power Efficiency and Thermal Management

We leverage advanced technology and system design expertise to reduce the power consumption of our server, blade, workstation and storage systems. We believe that we are an industry leader in power saving technology. Our server solutions include many design innovations to optimize power consumption and manage heat dissipation. We have designed flexible power management systems which customize or eliminate components in an effort to reduce overall power consumption. We have developed proprietary power supplies that can be integrated across a wide range of server system form factors which can significantly enhance power efficiency. We have also developed technologies that are specifically designed to reduce the effects of heat dissipation from our servers. Our thermal management technology allows our products to achieve a better price-to-performance ratio while minimizing energy costs and reducing the risk of server malfunction caused by overheating. We have also developed power management software that controls power consumption of server clusters by policy-based administration.

### High Density Servers

Our servers are designed to enable customers to maximize computing power while minimizing the physical space utilized. We offer server systems with up to four times the density of conventional solutions, which allows our customers to efficiently deploy our server systems in scale-out configurations. Through our industry leading technology, we can offer significantly more memory, hard disk drive storage and expansion slots than traditional server systems with a comparable server form factor. For example, our FatTwin solutions contain eight or four full feature DP hot-pluggable compute nodes with NVMe support in a 4U server. The 8-node configuration provides high density and computing power for those compute-demanding applications, while the 4-node configuration offers up to

8 hot-pluggable 3.5" HDDs per U for those applications that require high storage capacity within a compact setting. This high density design is well suited for our customers that require highly space efficient solutions.

### Strategy

Our objective is to be the leading provider of application optimized, high performance server, storage and networking solutions worldwide. Achieving this objective requires continuous development and innovation of our solutions with better price performance and architectural advantages compared with both our prior generation of solutions and the solutions of our competitors as well as solutions which expand the breadth of our coverage of data center needs. We believe that many of these product innovations are gaining momentum based on the strong year-over-year revenue growth across these next-generation products. We believe that our strategy and our ability to innovate and execute may enable us to maintain our relative competitive position in many of our product areas and improve our competitive position in others while providing us with several long-term growth opportunities. Key elements of our strategy include:

3

---

## Table of Contents

### Maintain Our Time-to-Market Advantage

We believe one of our major competitive advantages is our ability to rapidly incorporate the latest computing innovations into our products. We intend to maintain our time-to-market advantage by continuing our investment in our research and development efforts to rapidly develop new proprietary server, storage and networking solutions based on industry standard components. We plan to continue to work closely with technology partners such as Intel Corporation ("Intel"), Advanced Micro Devices, Inc. ("AMD") and Nvidia Corporation ("Nvidia"), among others, to develop products that are compatible with the latest generation of industry standard technologies. We believe these efforts will allow us to continue to offer products that lead in price for performance as each generation of computing innovations becomes available.

### Expand Our Product Offerings

We plan to increase the number of products in server, storage and networking solutions that we offer to our customers. We plan to continue to improve the energy efficiency of our products by enhancing our ability to deliver improved power and thermal management capabilities, as well as servers and subsystems and accessories that can operate in increasingly dense environments.

### Enhance Our Software Management Solutions

We have introduced and also plan to continue developing additional server, storage and networking management software capabilities as well as partner with certain software suppliers for software solutions that are integrated with our server products to enable our customers to simplify and automate the deployment, configuration and monitoring of our servers.

### Expand Our Service & Support Offerings

We intend to continue to expand our customer service and support offerings and enable our customers to purchase service and support together with our complete server systems as total solution packages around the world. Our service and support is designed to help our customers improve uptime, reduce costs and enhance the productivity of their investment in our products. We believe that continued enhancement of these offerings will support the continued growth of our business and increase our penetration with enterprise customers.

### Further Optimize Our Global Operating Structure

We plan to continue to increase our overseas manufacturing capacity and logistics capabilities in the Netherlands and Taiwan and continue our effort toward optimizing the efficiency of our global tax structure by expanding our reach geographically in order to more efficiently serve our customers and lower our manufacturing and tax costs.

### Deepen Our Relationships with Suppliers and Manufacturers

Our efficient supply chain and combined internal and outsourced manufacturing allow us to build systems to order that are customized, while minimizing costs. We plan to continue leveraging our relationships with suppliers and contract manufacturers in order to maintain and improve our cost structure as we benefit from economies of scale. We intend to continue to source non-core products from external suppliers. We also believe that as our solutions continue to gain greater market acceptance, we will generate growing and recurring business for our suppliers and contract manufacturers. We believe this increased volume will enable us to receive better pricing. We believe that a highly disciplined approach to cost control is critical to success in our industry. For example, we continue to maintain our warehousing capacity in Asia through our relationship with Ablecom Technology, Inc. ("Ablecom"), one of our major



contract manufacturers and a related party, so that we continue to deliver products to our customers in Asia and elsewhere more quickly and in higher volumes.

#### Products

We offer a broad range of application optimized server solutions, including storage, rackmount and blade server systems and subsystems and accessories which customers can use to build complete server systems.

#### Server Systems

We sell server systems in rackmount, standalone tower, blade, Twin and multi-node form factors. As of June 30, 2016, we offered over 1,200 different server systems. A summary of some of our server systems are listed below:

4

---

Table of Contents

Our GPU/Xeon Phi optimized server systems in 1U, 2U, 4U, 7U and blade platforms achieve higher parallel processing capability with Intel's Many Integrated Core, or MIC, architecture based on Xeon Phi and are designed to provide high performance in calculation intensive applications.

Our IoT/embedded server systems are compact, smart, and secure products that reside on the edge of the network, connecting smart sensors and devices to the cloud over wireless or local networks (ex. LAN, WiFi, 3G, Zigbee and RF). These server systems are built on open architecture to ensure interoperability between systems, for ease of services deployment, and enable a broad ecosystem of solution providers. The IoT/embedded server systems enable users to securely aggregate, share, and filter data for analysis. These server systems help ensure that data generated by devices can travel securely and safely from the edge to the cloud and back - without replacing existing infrastructure.

Our MicroCloud server systems are high density, multi-node UP servers with up to 24 hot-pluggable nodes in a compact 3U form factor. MicroCloud integrates advanced technologies within a compact functional design to deliver high performance in environments with space and power limitations. These combined features provide a cost-effective solution for IT professionals implementing new hosting architectures for SMB and Public/Private Cloud Computing applications.

Our SuperBlades and MicroBlades are designed to share a common computing infrastructure, thereby saving additional space and power. We believe that our SuperBlade and MicroBlade server systems provide industry leading density, memory expandability, reliability, price-to-performance per square foot and energy saving server solutions for dedicated hosting, web front end, cloud computing services, content delivery and social networking.

Our SuperStorage solutions in 2U, 3U and 4U platforms provide high density storage solutions while leveraging high efficiency power to maximize performance-per watt savings to reduce total cost of ownership, or TCO, for enterprise Data Centers, Big Data and other high performance applications. For example, we introduced over 50 new All-Flash NVME systems that deliver better performance and efficiency than traditional storage solutions, and our Simply Double SuperStorage systems that include twice the number of hot-swap bays as 2U industry standard systems, offer up to twice the storage capacity and IOPs in the same amount of space.

Our Twin architecture series of server systems including 1U and 2U Twin, 2U Twin<sup>2</sup>, 1U and 2U TwinPro and 4U FatTwin are optimized for density, performance and efficiency for customers' storage, HPC and cloud computing requirements.

Our Ultra Server systems in 1U and 2U platforms are designed to deliver performance, flexibility, scalability, and serviceability that are ideal for demanding enterprise workloads. They allow enterprise IT professionals the ability to easily qualify a single server platform that can easily be reconfigured for varieties of applications, to reduce qualification time and to manage the need for excessive spares inventories.

Our Data Center Optimized (DCO) server systems deliver superior performance-per-watt to optimize data center TCO with an improved thermal architecture utilizing power efficient components and offset processors to help eliminate CPU preheating and support a 5+ year product life cycle.

Our internally developed switch products 1G/10G/40G/100G Ethernet, InfiniBand and Omni Path switches for rack-mount servers not only help us to offer more complete solutions for our customers, but also generate additional revenues.

Our SuperRack server solutions offer a wide range of flexible accessory options including front, rear and side expansion units to provide modular solutions for system configuration. Data center, HPC computing and server farm

customers can use us as a one-stop shop for all of their IT hardware needs. Our SuperRack offers easy installation and rear access with no obstructions for hot-swap devices, user-friendly cabling and cable identification, and effortless integration of our high density server, storage and blade systems.

#### Server Software Management Solutions

Our remote system management solutions, such as our Server Management suite, or SSM, including Supermicro Power Management software, or SPM, Supermicro Command Manager, or SCM, Supermicro Update Manager, or SUM, and SuperDoctor 5, or SD5, have been designed for server farm or data centers' system administration and management. These remote management software utilities provide the ability to manage large-scale servers and storage in an organization's IT infrastructure. SPM is designed specifically for HPC/Data Center cluster deployment and management. We have also partnered with certain software suppliers for software solutions that are integrated with our server systems.

## Table of Contents

### Server Subsystems and Accessories

We believe we offer the largest array of modular server subsystems and accessories or building blocks in the industry that are sold off-the-shelf or built-to-order. These components are the foundation of our server solutions and span product offerings from the entry-level single and dual processor server segment to the high-end multi-processor market. The majority of the subsystems and accessories we sell individually are optimized to work together and are ultimately integrated into complete server systems.

### Serverboards

We design our serverboards with the latest chipset, networking technologies and infrastructure software. Each serverboard is designed and optimized to adhere to specific physical, electrical and design requirements in order to work with certain combinations of chassis and power supplies and achieve maximum functionality. For our rackmount server systems, we not only adhere to SSI specifications, but our customized specifications provide an advanced set of features that increase the functionality and flexibility of our products. As of June 30, 2016, we offered more than 600 SKUs for serverboards.

### Chassis and Power Supplies

Our chassis are designed to efficiently house our servers while maintaining interoperability, adhering to industry standards and increasing output efficiency through power supply design. We believe that our latest generation of power supplies achieves the maximum power efficiency available in the industry. Our power design technology reduces power consumption by increasing power efficiency to greater than 96%, which we believe is among the most efficient available in the industry. Our server chassis come with hot-plug, heavy-duty fans, fan speed control and an advanced air shroud design to maximize airflow redundancy. Our Powerstick design provides the slim form factor of a redundant power supply that increases system computing and storage density across our multiple product lines. As of June 30, 2016, we offered more than 550 SKUs for chassis and power supplies.

### Other System Accessories

As part of our server component offerings, we also offer other system accessories that our customers may require or that we use to build our server solutions. These other products include, among others, microprocessors, memory and disk drives that generally are third party developed and manufactured products that we resell without modification. As of June 30, 2016, we offered more than 2,600 SKUs for other system accessories.

### Supermicro Global Services

The Supermicro Global Services is comprised of customer support services and hardware enhanced services. Our customer support organization provides ongoing maintenance and technical support for our products through our website and 24-hour continuous direct phone based support. Our hardware enhanced services organization provides help desk services and product on-site support for our server systems. Both customer support services and hardware enhanced services develop and implement services solutions for our direct and OEM customers as well as our distributors. Service is provided to our customers directly or through approved distributors and third-party partners.

**Support Services:** Our customer support services offer market competitive warranties, generally from one (1) to three (3) years, and warranty upgrade options for products sold by our direct sales team and approved distributors.

**Hardware Enhanced Services:** Our strategic direct and OEM customers may purchase a variety of on-site support service plans. We offer several levels of on-site support that vary depending on specific services, response times,

coverage hours and duration, repair priority levels, spare parts requirements, logistics, data privacy and security needs. Our services include server system integration, configuration and software upgrades and updates. We also perform the planning, identify service requirements, create and execute the project plan, conduct verification testing, training and provide technical documentation.

#### Research and Development

Our products incorporate over 23 years of research and development experience. We perform the majority of our research and development efforts in-house, increasing the communication and collaboration between design teams to streamline the development process and reducing time-to-market. We continue to invest in reducing our design and manufacturing costs and improving the performance, cost effectiveness and thermal and space efficiency of our solutions.

## Table of Contents

Over the years, our research and development team has focused on the development of new and enhanced products that can support emerging protocols while continuing to accommodate legacy technologies. Much of our research and development activity is focused on the new product cycles of leading processor vendors. We work closely with Intel, AMD and NVIDIA among others, to develop products that are compatible with the latest generation of industry standard technologies under development. Our collaborative approach with the processor vendors allows us to coordinate the design of our new products with their product release schedules, thereby enhancing our ability to rapidly introduce new products incorporating the latest technology. We work closely with their respective development teams to optimize system performance and reduce system level issues. Similarly, we work very closely with our customers to identify their needs and develop our new product plans accordingly.

We believe that the combination of our focus on internal research and development activities, our close working relationships with customers and vendors and our modular design approach allow us to minimize time-to-market. Our latest introductions include our Simply Double storage portfolio of 2U 24 3.5" and 2U 48 2.5" drive servers. Ultra server design in 1U and 2U configurations, supporting up to 44 cores and 160W CPUs, 3TB of DDR4 memory in 24 DIMMs, 24 NVMe and 8 PCI-e 3.0 can be optimized for varieties of applications. MicroBlade design, a powerful and flexible extreme-density 3U/6U all-in-one total system, features 14/28 hot-swappable MicroBlade Modules supporting 112 ultra-low power Atom, or 56 UP or 28 DP Xeon processors with up to 4HDDs/SSDs. This architecture is an optimized, unified microserver, networking, storage, and remote management for cloud computing, dedicated hosting, web front end, content delivery and social networking applications.

As of June 30, 2016, we had 1,086 employees and 7 engineering consultants dedicated to research and development. Our total research and development expenses were \$124.0 million, \$100.3 million, and \$84.3 million for fiscal years 2016, 2015 and 2014, respectively.

### Customers

For fiscal year 2016, our products were purchased by over 800 customers, most of which are distributors, in 100 countries. In fiscal years 2016 and 2015, sales to SoftLayer, a division of IBM Corporation, represented 10.9% and 10.1%, respectively, of our total net sales. No customer represented greater than 10% of our total net sales for fiscal year 2014.

### Sales and Marketing

Our sales and marketing program is focused on a combination of our direct sales force and indirect sales channels. As of June 30, 2016, our sales and marketing organization consisted of 311 employees and 37 independent sales representatives in 18 locations worldwide.

We work with distributors, including resellers and system integrators, and OEMs to market and sell customized solutions to their end customers. We provide sales and marketing assistance and training to our distributors and OEMs, who in turn provide service and support to end customers. We intend to leverage our relationships with key distributors and OEMs to penetrate select industry segments where our products can provide a superior alternative to existing solutions. For a group of customers who do not normally purchase through distributors or OEMs, we have a direct sales approach.

We maintain close contact with our distributors and end customers. We often collaborate during the sales process with our distributors and the customer's technical point of contact to help determine the optimal system configuration for the customer's needs. Our interaction with distributors and end customers allows us to monitor customer requirements and develop new products to better meet end customer needs.

International Sales

Product fulfillment and first level support for our international customers are provided by our distributors, OEMs and Supermicro Global Services. Our international sales efforts are supported both by our international offices in the Netherlands, Taiwan, China and Japan as well as by our United States sales organization. Sales to customers located outside of the United States represented 36.9%, 41.7% and 44.8% of net sales in fiscal years 2016, 2015 and 2014, respectively. Our long-lived assets located outside of the United States represented 24.0%, 23.8% and 27.9% of total long-lived assets in fiscal years 2016, 2015 and 2014, respectively. See Note 14 of Notes to our Consolidated Financial Statements in Item 8 of this Form 10-K for a summary of international sales and long-lived assets.

7

---

## Table of Contents

### Marketing

Our marketing programs are designed to inform existing and potential customers, the trade press, distributors and OEMs about the capabilities and benefits of using our products and solutions. Our marketing efforts support the sale and distribution of our products through direct sales and distribution channels. We rely on a variety of marketing vehicles, including advertising, public relations, web, social media, participation in industry trade shows and conferences to help gain market acceptance. We provide funds for cooperative marketing to our distributors. We also work closely with cooperative marketing programs, and benefit from market development funds, that our distributors and suppliers make available.

### Intellectual Property

We seek to protect our intellectual property rights with a combination of patents, trademark, copyright, trade secret laws and disclosure restrictions. We rely primarily on trade secrets, technical know-how and other unpatented proprietary information relating to our design and product development activities. We also enter into confidentiality and proprietary rights agreements with our employees, consultants and other third parties and control access to our designs, documentation and other proprietary information.

### Manufacturing and Quality Control

We use several third party suppliers and contract manufacturers for materials and sub-assemblies, such as serverboards, chassis, disk drives, power supplies, fans and computer processors. We believe that selectively using outsourced manufacturing services allows us to focus on our core competencies in product design and development and increases our operational flexibility. We believe our manufacturing strategy allows us to adjust manufacturing capacity in response to changes in customer demand and to rapidly introduce new products to the market. We use Ablecom for contract design and manufacturing coordination support. We work with Ablecom to optimize modular designs for our chassis and certain of our other components. Ablecom coordinates the manufacturing of chassis for us. In addition to providing a larger volume of contract manufacturing services for us, Ablecom continues to warehouse for us a number of components and subassemblies manufactured by multiple suppliers prior to shipment to our facilities in the United States, Europe and Asia.

Assembly, test and quality control of our servers are performed at our manufacturing facilities in San Jose, California, the Netherlands and Taiwan. Each of our facilities has been certified by Quality / Environmental Management System or, Q/EMS, according to ISO 9001 and ISO 14001 standards. Our suppliers and contract manufacturers are required to support the same standards in order to maintain consistent product and service quality and continuous improvement of quality and environmental performances.

We seek to maintain sufficient inventory such that most of the orders we receive can be filled within 14 days. We monitor our inventory on a continuous basis in order to be able to meet customer orders and to avoid inventory obsolescence. Due to our modular designs, our inventory can generally be used with multiple different products, further reducing the risk of inventory write-downs.

### Competition

The market for our products is highly competitive, rapidly evolving and subject to new technological developments, changing customer needs and new product introductions. In particular, in recent years the market has been subject to substantial change. We compete primarily with large vendors of X86 general purpose servers and components. In addition, we also compete with a number of smaller vendors who specialize in the sale of server components and



systems. Over the last couple of years, we have experienced increased competition from Original Design Manufacturers, or ODMs, who benefit from very low cost manufacturing and are increasingly offering their own branded products. We believe our principal competitors include:

• Global technology vendors such as Dell Inc., Hewlett-Packard Enterprise, Lenovo, and Cisco;  
• Original Design Manufacturers, or ODMs, such as Quanta Computer, Inc.

The principal competitive factors in our market include the following:

• first to market with new emerging technologies;  
• flexible and customizable products to fit customers' objectives;  
• high product performance, efficiency and reliability;  
• early identification of emerging opportunities;

8

---

## Table of Contents

• cost-effectiveness;  
• interoperability of products;  
• scalability; and  
• localized and responsive customer support on a worldwide basis.

We believe that we compete favorably with respect to most of these factors. However, most of our competitors have longer operating histories, significantly greater resources and greater name recognition. They may be able to devote greater resources to the development, promotion and sale of their products than we can, which could allow them to respond more quickly to new technologies and changes in customer needs.

## Employees

As of June 30, 2016, we employed 2,655 full time employees and 44 consultants, consisting of 1,086 employees in research and development, 311 employees in sales and marketing, 251 employees in general and administrative and 1,007 employees in manufacturing. Of these employees, 1,780 employees are based in our Silicon Valley facilities. We consider our highly qualified and motivated employees to be a key factor in our business success. Our employees are not represented by any collective bargaining organization and we have never experienced a work stoppage. We believe that our relations with our employees are good.

## Corporate Information

We were incorporated in California in September 1993. We reincorporated in Delaware in March 2007. Our common stock is listed on The NASDAQ Global Select Market under the symbol "SMCI." Our principal executive offices are located at 980 Rock Avenue, San Jose, CA 95131 and our telephone number is (408) 503-8000. Our website address is [www.supermicro.com](http://www.supermicro.com).

## Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, are available free of charge, on or through our website at [www.supermicro.com](http://www.supermicro.com), as soon as reasonably practicable after we electronically file such reports with, or furnish those reports to, the Securities and Exchange Commission or the SEC. Information contained on our website is not incorporated by reference in, or made part of this Annual Report on Form 10-K or our other filings with or reports furnished to the SEC. The SEC also maintains a website that contains our SEC filings. The address of the site is [www.sec.gov](http://www.sec.gov). Further, a copy of this Annual Report on Form 10-K is located at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

## Item 1A. Risk Factors

### Risks Related to Our Business and Industry

Our quarterly operating results will likely fluctuate in the future, which could cause rapid declines in our stock price. As our business continues to grow, we believe that our quarterly operating results will be subject to greater fluctuation due to various factors, many of which are beyond our control. Factors that may affect quarterly operating results in the future include:

• Fluctuations based upon seasonality, with the quarters ending March 31 and September 30 typically being weaker;  
• Fluctuations in the timing and size of large customer orders as larger customers and larger orders become an increasing percentage of our net sales;

Variability of our margins based on our manufacturing capacity utilization, the mix of server systems, subsystems and accessories we sell and the percentage of our sales to internet data center cloud customers or certain geographical regions;

Fluctuations in availability and costs associated with key components and other materials needed to satisfy customer requirements;

The timing of the introduction of new products by leading microprocessor vendors and other suppliers;

9

---

Table of Contents

- Fluctuations based upon changes in demand for and cost of storage solutions as such solutions become an increasing percentage of our net sales;
- Changes in our product pricing policies, including those made in response to new product announcements and pricing changes of our competitors;
- Mix of whether customer purchases are of full systems or subsystems and accessories and whether made directly or through indirect sales channels;
- The effect of mergers and acquisitions among our competitors, suppliers or partners;
- General economic conditions in our geographic markets; and
- Impact of regulatory changes on our cost of doing business.

Accordingly, it is difficult to accurately forecast our growth and results of operations on a quarterly basis. If we fail to meet expectations of investors or analysts, our stock price may fall rapidly and without notice. Furthermore, the fluctuation of quarterly operating results may render less meaningful period-to-period comparisons of our operating results, and you should not rely upon them as an indication of future performance.

As we increasingly target larger customers and larger sales opportunities, our customer base may become more concentrated, our cost of sales may increase, our margins may be lower and our sales may be less predictable.

As our business continues to grow, we have become increasingly dependent upon larger sales to maintain our rate of growth. In particular, in recent years, we have completed larger sales to leading cloud computing and data center companies. One of our customers accounted for 10.9% of our net sales in the fiscal year ended June 30, 2016. As customers buy our products in greater volumes and their business becomes a larger percentage of our net sales, we may grow increasingly dependent on those customers to maintain our growth. If our largest customers do not purchase our products at the levels, timeframes or geographies that we expect, our ability to maintain or grow our net sales will be adversely affected.

Increased sales to larger customers may also cause fluctuations in results of operations. Large orders are generally subject to intense competition and pricing pressure which can have an adverse impact on our margins and results of operations. Likewise, larger customers may seek to fulfill all or substantially all of their requirements in a single or a few orders, and not make another significant purchase for a substantial period of time. Accordingly, a significant increase in revenue during the period in which we recognize the revenue from a large customer may be followed by a period of time during which the customer purchases none or few of our products.

Additionally, as we and our partners focus increasingly on selling to larger customers and attracting larger orders, we expect greater costs of sales. Our sales cycle may become longer and more expensive, as larger customers typically spend more time negotiating contracts than smaller customers. Larger customers often seek greater levels of support in the implementation and use of our server solutions.

As a result of the above factors, our quarter-to-quarter results of operations may be subject to greater fluctuation and our stock price may be adversely affected.

We may fail to meet publicly announced financial guidance or other expectations about our business, which would cause our stock to decline in value.

We typically provide forward looking financial guidance when we announce our financial results from the prior quarter. We undertake no obligation to update such guidance at any time. Frequently in the past, our financial results have failed to meet the guidance we provided. There are a number of reasons why we have failed to meet guidance in the past and might fail again in the future, including, but not limited to, the factors described in these Risk Factors.

If we are unable to favorably assess the effectiveness of our internal control over financial reporting, or if our independent auditors are unable to provide an unqualified attestation report on our internal control over financial reporting, our stock price could be adversely affected.

In November 2015, our management determined, and the Audit Committee of our Board of Directors concurred, that a material weakness existed in our internal control over financial reporting related to the revenue recognition of contracts with extended product warranties. We identified errors related to revenue recognized prior to meeting the U.S. GAAP revenue

10

---

Table of Contents

recognition criteria that impacted prior periods, including fiscal years 2013, 2014 and 2015 which were corrected in the three months ended September 30, 2015. We have improved our controls on revenue recognition of contracts with extended product warranties and remediated this material weakness as of June 30, 2016. While we have put controls in place to remediate the material weakness, we cannot assure that there will not be additional material weaknesses or significant deficiencies that we or our independent registered public accounting firm may identify. If we identify such issues or if we are unable to produce accurate and timely financial statements, our stock price may be adversely affected and we may be unable to maintain compliance with Nasdaq listing requirements.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, our management is required to report on the effectiveness of our internal control over financial reporting in our annual reports. In addition, our independent auditors must attest to and report on the effectiveness of our internal control over financial reporting. The rules governing the standards that must be met for management to assess our internal control over financial reporting are complex, and require significant documentation, testing and possible remediation. As a result, our efforts to comply with Section 404 have required the commitment of significant managerial and financial resources. As we are committed to maintaining high standards of public disclosure, our efforts to comply with Section 404 are ongoing, and we are continuously in the process of reviewing, documenting and testing our internal control over financial reporting, which will result in continued commitment of significant financial and managerial resources. Although we strive to maintain effective internal controls over financial reporting in order to prevent and detect material misstatements in our annual and quarterly financial statements and prevent fraud, we cannot assure that such efforts will be effective. If we fail to maintain effective internal controls in future periods, our operating results, financial position and stock price could be adversely affected.

Increases in average selling prices for our server solutions have significantly contributed to our increases in net sales. Such prices are subject to decline if customers do not continue to purchase our latest generation products or additional components, which could harm our results of operations.

Increases in average selling prices have significantly contributed to our increases in net sales. As with most electronics based products, average selling prices of servers typically are highest at the time of introduction of new products, which utilize the latest technology, and tend to decrease over time as such products become commoditized and are ultimately replaced by even newer generation products. As our business continues to grow, we may increasingly be subject to this industry risk. We cannot predict the timing or amount of any decline in the average selling prices of our server solutions that we may experience in the future. In some instances, our agreements with our distributors limit our ability to reduce prices unless we make such price reductions available to them, or price protect their inventory. If we are unable to decrease per unit manufacturing costs faster than the rate at which average selling prices continue to decline, our business, financial condition and results of operations will be harmed. In addition, our average selling prices have increased rapidly in recent periods as we have sold more products including additional components such as more memory and hard disk drive capacity. There is no assurance that our average selling prices will continue to increase and may decline due to decreased demand for, or lower prices of, the additional components that we sell with our server solutions.

Our cost structure and ability to deliver server solutions to customers in a timely manner may be adversely affected by volatility of the market for core components and materials for our products.

Prices of materials and core components utilized in the manufacture of our server solutions, such as serverboards, chassis, central processing units, or CPUs, memory and hard drives represent a significant portion of our cost of sales. We generally do not enter into long-term supply contracts for these materials and core components, but instead purchase these materials and components on a purchase order basis. Prices of these core components and materials are volatile, and, as a result, it is difficult to predict expense levels and operating results. In addition, if our business growth renders it necessary or appropriate to transition to longer term contracts with materials and core component

suppliers, our costs may increase and our gross margins could correspondingly decrease.

Because we often acquire materials and core components on an as needed basis, we may be limited in our ability to effectively and efficiently respond to customer orders because of the then-current availability or the terms and pricing of materials and core components. Our industry has experienced materials shortages and delivery delays in the past, and we may experience shortages or delays of critical materials in the future. From time to time, we have been forced to delay the introduction of certain of our products or the fulfillment of customer orders as a result of shortages of materials and core components. For example, we were unable to fulfill certain orders in fiscal year 2010 due to component shortages, and our net sales were adversely impacted in fiscal year 2013 and 2012 by disk drive shortages resulting from flooding in Thailand. If shortages or delays arise, the prices of these materials and core components may increase or the materials and core components may not be available at all. In addition, in the event of shortages, some of our larger competitors may have greater abilities to obtain materials and core components due to their larger purchasing power. We may not be able to secure enough core

Table of Contents

components or materials at reasonable prices or of acceptable quality to build new products to meet customer demand, which could adversely affect our business and financial results.

If we were to lose any of our current supply or contract manufacturing relationships, the process of identifying and qualifying a new supplier or contract manufacturer who will meet our quality and delivery requirements, and who will appropriately safeguard our intellectual property, may require a significant investment of time and resources, adversely affecting our ability to satisfy customer purchase orders and delaying our ability to rapidly introduce new products to market. Similarly, if any of our suppliers were to cancel, materially change contracts or commitments to us or fail to meet the quality or delivery requirements needed to satisfy customer demand for our products, whether due to shortages or other reasons, our reputation and relationships with customers could be damaged. We could lose orders, be unable to develop or sell some products cost-effectively or on a timely basis, if at all, and have significantly decreased revenues, margins and earnings, which would have a material adverse effect on our business.

We may incur additional expenses and suffer lower margins if our expectations regarding long term hard disk drive commitments prove incorrect.

Notwithstanding our general practice of not entering into long term supply contracts, as a result of severe flooding in Thailand during the first quarter of fiscal year 2012, we have entered into purchase agreements with selected suppliers of hard disk drives in order to ensure continuity of supply for these components. The hard disk drive purchase commitments totaled approximately \$110.5 million as of June 30, 2016, a decrease from \$185.7 million as of June 30, 2015 and will be paid through December 2016. Higher costs compared to the lower selling prices for these components incurred under these agreements contributed to our lower gross profit in fiscal year 2013 and if a similar event occurs in the future, our gross profit will likely be impacted. Our existing and any other similar future supply commitments that we may enter into expose us to risk for lower margins or loss on disposal of such inventory if our expectations of customer demand are incorrect and the market price of the material or component inventory decline. Likewise if we fail to enter into commitments we may be exposed to limited availability of supply or higher inventory costs which could result in lower net sales and adversely impact gross margin and net income.

We may lose sales or incur unexpected expenses relating to insufficient, excess or obsolete inventory.

As a result of our strategy to provide greater choice and customization of our products to our customers, we are required to maintain a high level of inventory. If we fail to maintain sufficient inventory, we may not be able to meet demand for our products on a timely basis, and our sales may suffer. If we overestimate customer demand for our products, we could experience excess inventory of our products and be unable to sell those products at a reasonable price, or at all. As a result, we may need to record higher inventory reserves. In addition, from time to time we assume greater inventory risk in connection with the purchase or manufacture of more specialized components in connection with higher volume sales opportunities. We have from time to time experienced inventory write downs associated with higher volume sales that were not completed as anticipated. We expect that we will experience such write downs from time to time in the future related to existing and future commitments. If we are later able to sell inventory with respect to which we have taken a reserve at a profit, it may increase the quarterly variances in our operating results. Additionally, the rapid pace of innovation in our industry could render significant portions of our existing inventory obsolete. Certain of our distributors and OEMs have rights to return products, limited to purchases over a specified period of time, generally within 60 to 90 days of the purchase, or to products in the distributor's or OEM's inventory at certain times, such as termination of the agreement or product obsolescence. Any returns under these arrangements could result in additional obsolete inventory. In addition, server systems, subsystems and accessories that have been customized and later returned by those of our customers and partners who have return rights or stock rotation rights may be unusable for other purposes or may require reformation at additional cost to be made ready for sale to other customers. Excess or obsolete inventory levels for these or other reasons could result in unexpected expenses or increases in our reserves against potential future charges which would adversely affect our business and financial



results. For additional information regarding customer return rights, see “Management's Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies-Inventory Valuation.”

We may encounter difficulties with our ERP systems.

We have implemented a new enterprise resource planning, or ERP, system and have commenced using the new system in the United States in July 2015 and in Taiwan and the Netherlands in January 2016. We have incurred and expect to continue to incur additional expenses related to our implementation as we continue to enhance and develop our ERP system. Many companies have experienced delays and difficulties with the implementation of new or changed ERP systems that have had a negative effect on their business. Any future disruptions, delays or deficiencies in the design and implementation of our ERP system could result in potentially much higher costs than we currently anticipate and could adversely affect our ability to

12

---

Table of Contents

provide services, fulfill contractual obligations, file reports with the SEC in a timely manner and/or otherwise operate our business, or otherwise impact our controls environment. Any of these consequences could have an adverse effect on our results of operations and financial condition.

System security risks, data protection breaches, cyber-attacks and other related cyber-security issues could disrupt our internal operations or interfere with our products, and any such disruption could reduce our expected revenues, increase our expenses, damage our reputation and adversely affect our stock price.

Experienced computer programmers and hackers may be able to penetrate our network and misappropriate or compromise our confidential information or that of third parties, create system disruptions or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms, and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products. In addition, our hardware and software or third party components and software that we utilize in our products may contain defects in design or manufacture, including “bugs” and other problems that could unexpectedly interfere with the operation of the products. The costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant and, if our efforts to address these problems are not successful, this could result in interruptions, delays, cessation of service and loss of existing or potential customers that may impede our sales, manufacturing, distribution or other critical functions. Any claim that our products or systems are subject to a cyber-security risk, whether valid or not, could damage our reputation and adversely impact our revenues and results of operations.

We manage and store various proprietary information and sensitive or confidential data relating to our business as well as information from our suppliers and customers. Breaches of our or any of our third party suppliers’ security measures or the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive or confidential data about us or our customers or suppliers, including the potential loss or disclosure of such information or data as a result of fraud, trickery or other forms of deception, could expose us or our customers or suppliers to a risk of loss or misuse of this information, result in litigation and potential liability for us, damage our brand and reputation or otherwise harm our business. In addition, the cost and operational consequences of implementing further data protection measures could be significant.

If we do not successfully manage the expansion of our international manufacturing operations, our business could be harmed.

Since inception we have conducted a substantial majority of our manufacturing operations in San Jose. We are continuing to work on increasing our utilization of manufacturing operations in Taiwan and in the Netherlands. The commencement or scaling of new manufacturing operations in new locations, particularly in other jurisdictions, entails additional risks and challenges. Difficulties associated with our implementation of a new global operating structure adversely impacted our results of operations and tax expenses in the quarter ended June 30, 2016. If we are unable to successfully ramp up these operations we may incur unanticipated costs, difficulties in making timely delivery of products or suffer other business disruptions which could adversely impact our results of operations.

We may not be able to successfully manage our planned growth and expansion.

Over time we expect to continue to make investments to pursue new customers and expand our product offerings to grow our business rapidly. We expect that our annual operating expenses will continue to increase as we invest in sales and marketing, research and development, manufacturing and production infrastructure, and strengthen customer service and support resources for our customers. Our failure to expand operational and financial systems timely or efficiently could result in additional operating inefficiencies, which could increase our costs and expenses more than we had planned and prevent us from successfully executing our business plan. We may not be able to offset the costs

of operation expansion by leveraging the economies of scale from our growth in negotiations with our suppliers and contract manufacturers. Additionally, if we increase our operating expenses in anticipation of the growth of our business and this growth does not meet our expectations, our financial results will be negatively impacted.

If our business grows, we will have to manage additional product design projects, materials procurement processes, and sales efforts and marketing for an increasing number of SKUs, as well as expand the number and scope of our relationships with suppliers, distributors and end customers. If we fail to manage these additional responsibilities and relationships successfully, we may incur significant costs, which may negatively impact our operating results. Additionally, in our efforts to be first to market with new products with innovative functionality and features, we may devote significant research and development resources to products and product features for which a market does not develop quickly, or at all. If we are not able to predict market trends accurately, we may not benefit from such research and development activities, and our results of operations may suffer.

Table of Contents

Our future effective income tax rates could be affected by changes in the relative mix of our operations and income among different geographic regions and by proposed and enacted United States federal income tax legislation, which could affect our future operating results, financial condition and cash flows.

We seek to structure our worldwide operations to take advantage of certain international tax planning opportunities and incentives. Our future effective income tax rates could be adversely affected if tax authorities challenge our international tax structure or if the relative mix of our United States and international income changes for any reason, or if United States or international tax laws were to change in the future. In particular, a substantial portion of our revenue is generated from customers located outside the United States. Foreign withholding taxes and United States income taxes have not been provided on undistributed earnings for certain non-United States subsidiaries, because such earnings are intended to be indefinitely reinvested in the operations of those subsidiaries. In the past, the administration has considered initiatives which could substantially reduce our ability to defer United States taxes including: limitations on deferral of United States taxation of foreign earnings eliminate utilization or substantially reduce our ability to claim foreign tax credits, and eliminate various tax deductions until foreign earnings are repatriated to the United States. If any of these proposals are constituted into law, they could have a negative impact on our financial position and results of operations. We cannot assure you that we will be able to lower our effective tax rate as a result of these activities nor that such rate will not increase in the future.

The market in which we participate is highly competitive, and if we do not compete effectively, we may not be able to increase our market penetration, grow our net sales or improve our gross margins.

The market for server solutions is intensely competitive and rapidly changing. Barriers to entry in our market are relatively low and we expect increased challenges from existing as well as new competitors. Some of our principal competitors offer server solutions at a lower price, which has resulted in pricing pressures on sales of our server solutions. We expect further downward pricing pressure from our competitors and expect that we will have to price some of our server solutions aggressively to increase our market share with respect to those products or geographies, particularly for internet data center customers and other large sale opportunities. If we are unable to maintain the margins on our server solutions, our operating results could be negatively impacted. In addition, if we do not develop new innovative server solutions, or enhance the reliability, performance, efficiency and other features of our existing server solutions, our customers may turn to our competitors for alternatives. In addition, pricing pressures and increased competition generally may also result in reduced sales, less efficient utilization of our manufacturing operations, lower margins or the failure of our products to achieve or maintain widespread market acceptance, any of which could have a material adverse effect on our business, results of operations and financial condition.

Our principal competitors include global technology companies such as Dell, Inc., Hewlett-Packard Enterprise, Lenovo and Cisco. In addition, we also compete with a number of other vendors who also sell application optimized servers, contract manufacturers and original design manufacturers, or ODMs, such as Quanta Computer Incorporated. ODMs sell server solutions marketed or sold under a third party brand.

Many of our competitors enjoy substantial competitive advantages, such as:

- Greater name recognition and deeper market penetration;
- Longer operating histories;
- Larger sales and marketing organizations and research and development teams and budgets;
- More established relationships with customers, contract manufacturers and suppliers and better channels to reach larger customer bases and larger sales volume allowing for better costs;
- Larger customer service and support organizations with greater geographic scope;
- A broader and more diversified array of products and services; and

Substantially greater financial, technical and other resources.

Some of our current or potential ODM competitors are also currently or have in the past been suppliers to us. As a result, they may possess sensitive knowledge or experience which may be used against us competitively and/or which may require us to alter our supply arrangements or sources in a way which could adversely impact our cost of sales or results of operations.

Our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements. Competitors may seek to copy our innovations and use cost advantages from greater size to compete aggressively with us on price. Certain customers are also current or prospective competitors and as a result, assistance that we provide to them as customers may ultimately result in increased competitive pressure against us.

14

---

Table of Contents

Furthermore, because of these advantages, even if our application optimized server solutions are more effective than the products that our competitors offer, potential customers might accept competitive products in lieu of purchasing our products. The challenges we face from larger competitors will become even greater if consolidation or collaboration between or among our competitors occurs in our industry. Also initiatives like the Open Compute Project, or OCP, a project to establish more industry standard data center configurations, could have the impact of supporting an approach which is less favorable to the flexibility and customization that we offer. These changes could have a significant impact on the market and impact our results of operations. For all of these reasons, we may not be able to compete successfully against our current or future competitors, and if we do not compete effectively, our ability to increase our net sales may be impaired.

Any failure to adequately expand or retain our sales force will impede our growth.

We expect that our direct sales force will continue to grow as larger customers increasingly require a direct sales approach. Competition for direct sales personnel with the advanced sales skills and technical knowledge we need is intense. Our ability to grow our revenue in the future will depend, in large part, on our success in recruiting, training, retaining and successfully managing sufficient qualified direct sales personnel. We have traditionally experienced much greater turnover in our sales and marketing personnel as compared to other departments and other companies. New hires require significant training and may take six months or longer before they reach full productivity. Our recent hires and planned hires may not become as productive as we would like, and we may be unable to hire sufficient numbers of qualified individuals in the future in the markets where we do business. If we are unable to hire, develop and retain sufficient numbers of productive sales personnel, sales of our server solutions will suffer.

We must work closely with our suppliers to make timely new product introductions.

We rely on our close working relationships with our suppliers, including Intel, AMD and Nvidia, to anticipate and deliver new products on a timely basis when new generation materials and core components are made available. Intel, AMD and Nvidia are the only suppliers of the microprocessors we use in our server systems. If we are not able to maintain our relationships with our suppliers or continue to leverage their research and development capabilities to develop new technologies desired by our customers, our ability to quickly offer advanced technology and product innovations to our customers would be impaired. We have no long term agreements that obligate our suppliers to continue to work with us or to supply us with products.

Our suppliers' failure to improve the functionality and performance of materials and core components for our products may impair or delay our ability to deliver innovative products to our customers.

We need our material and core component suppliers, such as Intel, AMD and Nvidia, to provide us with core components that are innovative, reliable and attractive to our customers. Due to the pace of innovation in our industry, many of our customers may delay or reduce purchase decisions until they believe that they are receiving best of breed products that will not be rendered obsolete by an impending technological development. Accordingly, demand for new server systems that incorporate new products and features is significantly impacted by our suppliers' new product introduction schedules and the functionality, performance and reliability of those new products. If our materials and core component suppliers fail to deliver new and improved materials and core components for our products, we may not be able to satisfy customer demand for our products in a timely manner, or at all. If our suppliers' components do not function properly, we may incur additional costs and our relationships with our customers may be adversely affected.

As our business grows, we expect that we may be exposed to greater customer credit risks.

Historically, we have offered limited credit terms to our customers. As our customer base expands, as our orders increase in size, and as we obtain more direct customers, we expect to offer increased credit terms and flexible payment programs to our customers. Doing so may subject us to increased credit risk, higher accounts receivable with longer days outstanding, and increases in charges or reserves, which could have a material adverse effect on our business, results of operations and financial condition.

We rely on indirect sales channels for a significant percentage of our revenue and any disruption in these channels could adversely affect our sales.

Sales of our products through third party distributors and resellers accounted for 44.8%, 50.3% and 54.1% of our net sales in fiscal years 2016, 2015 and 2014, respectively. We depend on our distributors to assist us in promoting market acceptance of our products and anticipate that a significant portion of our revenues will continue to result from sales through indirect channels. To maintain and potentially increase our revenue and profitability, we will have to successfully preserve and

Table of Contents

expand our existing distribution relationships as well as develop new distribution relationships. Our distributors also sell products offered by our competitors and may elect to focus their efforts on these sales. If our competitors offer our distributors more favorable terms or have more products available to meet the needs of their customers, or utilize the leverage of broader product lines sold through the distributors, those distributors may de-emphasize or decline to carry our products. In addition, our distributors' order decision-making process is complex and involves several factors, including end customer demand, warehouse allocation and marketing resources, which can make it difficult to accurately predict total sales for the quarter until late in the quarter. We also do not control the pricing or discounts offered by distributors to end customers. To maintain our participation in distributors' marketing programs, in the past we have provided cooperative marketing arrangements or made short-term pricing concessions.

The discontinuation of cooperative marketing arrangements or pricing concessions could have a negative effect on our business. Our distributors could also modify their business practices, such as payment terms, inventory levels or order patterns. If we are unable to maintain successful relationships with distributors or expand our distribution channels or we experience unexpected changes in payment terms, inventory levels or other practices by our distributors, our business will suffer.

Our direct sales efforts may create confusion for our end customers and harm our relationships with our distributors and OEMs.

We expect our direct sales force to continue to grow as our business grows. As our direct sales force becomes larger, our direct sales efforts may lead to conflicts with our distributors and OEMs, who may view our direct sales efforts as undermining their efforts to sell our products. If a distributor or OEM deems our direct sales efforts to be inappropriate, the distributor or OEM may not effectively market our products, may emphasize alternative products from competitors, or may seek to terminate our business relationship. Disruptions in our distribution channels could cause our revenues to decrease or fail to grow as expected. Our failure to implement an effective direct sales strategy that maintains and expands our relationships with our distributors and OEMs could lead to a decline in sales and adversely affect our results of operations.

Our research and development expenditures, as a percentage of our net sales, are considerably higher than many of our competitors and our earnings will depend upon maintaining revenues and margins that offset these expenditures.

Our strategy is to focus on being consistently rapid-to-market with flexible and customizable server systems that take advantage of our own internal development and the latest technologies offered by microprocessor manufacturers and other component vendors. Consistent with this strategy, we spend higher amounts, as a percentage of revenues, on research and development costs than many of our competitors. If we cannot sell our products in sufficient volume and with adequate gross margins to compensate for such investment in research and development, our earnings may be materially and adversely affected.

Our failure to deliver high quality server solutions could damage our reputation and diminish demand for our products.

Our server solutions are critical to our customers' business operations. Our customers require our server solutions to perform at a high level, contain valuable features and be extremely reliable. The design of our server solutions is sophisticated and complex, and the process for manufacturing, assembling and testing our server solutions is challenging. Occasionally, our design or manufacturing processes may fail to deliver products of the quality that our customers require. For example, in the past a vendor provided us with a defective capacitor that failed under certain heavy use applications. As a result, our product needed to be repaired. Though the vendor agreed to pay for a large percentage of the costs of the repairs, we incurred costs in connection with the recall and diverted resources from other projects.



New flaws or limitations in our server solutions may be detected in the future. Part of our strategy is to bring new products to market quickly, and first-generation products may have a higher likelihood of containing undetected flaws. If our customers discover defects or other performance problems with our products, our customers' businesses, and our reputation, may be damaged. Customers may elect to delay or withhold payment for defective or underperforming server solutions, request remedial action, terminate contracts for untimely delivery, or elect not to order additional server solutions, which could result in an increase in our provision for doubtful accounts, an increase in collection cycles for accounts receivable or subject us to the expense and risk of litigation. We may incur expense in recalling, refurbishing or repairing defective server solutions. If we do not properly address customer concerns about our products, our reputation and relationships with our customers may be harmed. For all of these reasons, customer dissatisfaction with the quality of our products could substantially impair our ability to grow our business.

Table of Contents

Conflicts of interest may arise between us and Ablecom, and those conflicts may adversely affect our operations.

We use Ablecom, a related party, for contract design and manufacturing coordination support. We work with Ablecom to optimize modular designs for our chassis and certain of other components. Our purchases from Ablecom represented 12.8%, 13.6% and 16.3% of our cost of sales for fiscal years 2016, 2015 and 2014, respectively. Ablecom's sales to us constitute a substantial majority of Ablecom's net sales. Ablecom is a privately-held Taiwan-based company.

Steve Liang, Ablecom's Chief Executive Officer and largest shareholder, is the brother of Charles Liang, our President, Chief Executive Officer and Chairman of the Board. Charles Liang, and his spouse, Chiu-Chu (Sara) Liu Liang, our Vice President of Operations, Treasurer and director, jointly own 10.5% of Ablecom's outstanding common stock, while Mr. Steve Liang and other family members own 36.0% of Ablecom's outstanding common stock. Mr. and Mrs. Charles Liang, as directors, officers and significant stockholders of the Company, have considerable influence over the management of our business relationships. Accordingly, we may be disadvantaged by their economic interests as stockholders of Ablecom and their personal relationship with Ablecom's Chief Executive Officer. We may not negotiate or enforce contractual terms as aggressively with Ablecom as we might with an unrelated party, and the commercial terms of our agreements may be less favorable than we might obtain in negotiations with third parties. If our business dealings with Ablecom are not as favorable to us as arms-length transactions, our results of operations may be harmed.

If Steve Liang ceases to have significant influence over Ablecom, or if those of our stockholders who hold shares of Ablecom cease to have a significant amount of the outstanding shares of Ablecom, the terms and conditions of our agreements with Ablecom may not be as favorable as those in our existing contracts. As a result, our costs could increase and adversely affect our margins and results of operations.

Our relationship with Ablecom may allow us to benefit from favorable pricing which may result in reported results more favorable than we might report in the absence of our relationship.

Although we generally re-negotiate the price of products that we purchase from Ablecom on a quarterly basis, pursuant to our agreements with Ablecom either party may re-negotiate the price of products for each order. As a result of our relationship with Ablecom, it is possible that Ablecom may in the future sell products to us at a price lower than we could obtain from an unrelated third party supplier. This may result in future reporting of gross profit as a percentage of net sales that is in excess of what we might have obtained absent our relationship with Ablecom.

Our reliance on Ablecom could be subject to risks associated with our reliance on a limited source of contract manufacturing services and inventory warehousing.

We continue to maintain our manufacturing relationship with Ablecom in Asia. In order to provide a larger volume of contract manufacturing services for us, Ablecom will continue to warehouse for us an increasing number of components and subassemblies manufactured by multiple suppliers prior to shipment to our facilities in the United States and Europe. We also anticipate that we will continue to lease office space from Ablecom in Taiwan to support the research and development efforts we are undertaking and continue to operate a joint management company with Ablecom to manage the common areas shared by us and Ablecom for our separately constructed manufacturing facilities in Taiwan.

If we or Ablecom fail to manage the contract manufacturing services and warehouse operations in Asia, we may experience delays in our ability to fulfill customer orders. Similarly, if Ablecom's facility in Asia is subject to damage, destruction or other disruptions, our inventory may be damaged or destroyed, and we may be unable to find adequate

alternative providers of contract manufacturing services in the time that we or our customers require. We could lose orders and be unable to develop or sell some products cost-effectively or on a timely basis, if at all.

Currently, we purchase contract manufacturing services primarily for our chassis and power supply products from Ablecom. If our commercial relationship with Ablecom were to deteriorate or terminate, establishing direct relationships with those entities supplying Ablecom with key materials for our products or identifying and negotiating agreements with alternative providers of warehouse and contract manufacturing services might take a considerable amount of time and require a significant investment of resources. Pursuant to our agreements with Ablecom and subject to certain exceptions, Ablecom has the exclusive right to be our supplier of the specific products developed under such agreements. As a result, if we are unable to obtain such products from Ablecom on terms acceptable to us, we may need to identify a new supplier, change our design and acquire new tooling, all of which could result in delays in our product availability and increased costs. If we need to use other suppliers, we may not be able to establish business arrangements that are, individually or in the aggregate, as favorable as the

Table of Contents

terms and conditions we have established with Ablecom. If any of these things should occur, our net sales, margins and earnings could significantly decrease, which would have a material adverse effect on our business.

Our growth into markets outside the United States exposes us to risks inherent in international business operations.

We market and sell our systems and components both domestically and outside the United States. We intend to expand our international sales efforts, especially into Asia and are expanding our business operations in Europe and Asia, particularly in Taiwan, the Netherlands, China and Japan. In particular, we have and continue to make substantial investments for the purchase of land and the development of new facilities in Taiwan to accommodate our expected growth. Our international expansion efforts may not be successful. Our international operations expose us to risks and challenges that we would otherwise not face if we conducted our business only in the United States, such as:

- Heightened price sensitivity from customers in emerging markets;
- Our ability to establish local manufacturing, support and service functions, and to form channel relationships with resellers in non-United States markets;
- Localization of our systems and components, including translation into foreign languages and the associated expenses;
- Compliance with multiple, conflicting and changing governmental laws and regulations;
- Foreign currency fluctuations;
- Limited visibility into sales of our products by our distributors;
- Laws favoring local competitors;
- Weaker legal protections of intellectual property rights and mechanisms for enforcing those rights;
- Market disruptions created by public health crises in regions outside the United States, such as Avian flu, SARS and other diseases;
- Difficulties in staffing and managing foreign operations, including challenges presented by relationships with workers' councils and labor unions; and
- Changing regional economic and political conditions.

These factors could limit our future international sales or otherwise adversely impact our operations or our results of operations.

We have in the past entered into plea and settlement agreements with the government relating to violations of export control and related laws; if we fail to comply with laws and regulations restricting dealings with sanctioned countries, we may be subject to future civil or criminal penalties, which may have a material adverse effect on our business or ability to do business outside the United States.

In 2006, we entered into certain plea and settlement agreement with government agencies relating to export control and related law violations for activities that occurred in the 2001 to 2003 time frame. We believe we are currently in compliance in all material respects with applicable export related laws and regulations. However, if our export compliance program is not effective, or if we are subject to any future claims regarding violation of export control and economic sanctions laws, we could be subject to civil or criminal penalties, which could lead to a material fine or other sanctions, including loss of export privileges, that may have a material adverse effect on our business, financial condition, results of operation and future prospects. In addition, these plea and settlement agreements and any future violations could have an adverse impact on our ability to sell our products to United States federal, state and local government and related entities.

Any failure to protect our intellectual property rights, trade secrets and technical know-how could impair our brand and our competitiveness.

Our ability to prevent competitors from gaining access to our technology is essential to our success. If we fail to protect our intellectual property rights adequately, we may lose an important advantage in the markets in which we compete. Trademark, patent, copyright and trade secret laws in the United States and other jurisdictions as well as our internal confidentiality procedures and contractual provisions are the core of our efforts to protect our proprietary technology and our brand. Our patents and other intellectual property rights may be challenged by others or invalidated through administrative process or litigation, and we may initiate claims or litigation against third parties for infringement of our proprietary rights. Such administrative proceedings and litigation are inherently uncertain and divert resources that could be put towards other business priorities. We may not be able to obtain a favorable outcome and may spend considerable resources in our efforts to defend and protect our intellectual property.

Table of Contents

Furthermore, legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain. Effective patent, trademark, copyright and trade secret protection may not be available to us in every country in which our products are available. The laws of some foreign countries may not be as protective of intellectual property rights as those in the United States, and mechanisms for enforcement of intellectual property rights may be inadequate.

Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property and using our technology for their competitive advantage. Any such infringement or misappropriation could have a material adverse effect on our business, results of operations and financial condition.

Resolution of claims that we have violated or may violate the intellectual property rights of others could require us to indemnify our customers, resellers or vendors, redesign our products, or pay significant royalties to third parties, and materially harm our business.

Our industry is marked by a large number of patents, copyrights, trade secrets and trademarks and by frequent litigation based on allegations of infringement or other violation of intellectual property rights. Our primary competitors have substantially greater numbers of issued patents than we have which may position us less favorably in the event of any claims or litigation with them. Other third-parties have in the past sent us correspondence regarding their intellectual property or filed claims that our products infringe or violate third parties' intellectual property rights. In addition, increasingly non-operating companies are purchasing patents and bringing claims against technology companies. We have been subject to several such claims and may be subject to such claims in the future.

Successful intellectual property claims against us from others could result in significant financial liability or prevent us from operating our business or portions of our business as we currently conduct it or as we may later conduct it. In addition, resolution of claims may require us to redesign our technology, to obtain licenses to use intellectual property belonging to third parties, which we may not be able to obtain on reasonable terms, to cease using the technology covered by those rights, and to indemnify our customers, resellers or vendors. Any claim, regardless of its merits, could be expensive and time consuming to defend against, and divert the attention of our technical and management resources.

If we lose Charles Liang, our President, Chief Executive Officer and Chairman, or any other key employee or are unable to attract additional key employees, we may not be able to implement our business strategy in a timely manner.

Our future success depends in large part upon the continued service of our executive management team and other key employees. In particular, Charles Liang, our President, Chief Executive Officer and Chairman of the Board, is critical to the overall management of our company as well as to the development of our culture and our strategic direction. Mr. Liang co-founded our company and has been our Chief Executive Officer since our inception. His experience in running our business and his personal involvement in key relationships with suppliers, customers and strategic partners are extremely valuable to our company. We currently do not have a succession plan for the replacement of Mr. Liang if it were to become necessary. Additionally, we are particularly dependent on the continued service of our existing research and development personnel because of the complexity of our products and technologies. Our employment arrangements with our executives and employees do not require them to provide services to us for any specific length of time, and they can terminate their employment with us at any time, with or without notice, without penalty. The loss of services of any of these executives or of one or more other key members of our team could seriously harm our business.

To execute our growth plan, we must attract additional highly qualified personnel, including additional engineers and executive staff. Competition for qualified personnel is intense, especially in Silicon Valley, where we are headquartered. We have experienced in the past and may continue to experience difficulty in hiring and retaining

highly skilled employees with appropriate qualifications. In particular, we are currently working to add personnel in our finance, accounting and general administration departments, which have historically had limited budgets and staffing. If we are unable to attract and integrate additional key employees in a manner that enables us to scale our business and operations effectively, or if we do not maintain competitive compensation policies to retain our employees, our ability to operate effectively and efficiently could be limited.

Backlog does not provide a substantial portion of our net sales in any quarter.

Our net sales are difficult to forecast because we do not have sufficient backlog of unfilled orders to meet our quarterly net sales targets at the beginning of a quarter. Rather, a majority of our net sales in any quarter depend upon customer orders that we receive and fulfill in that quarter. Because our expense levels are based in part on our expectations as to future net sales and to a large extent are fixed in the short term, we might be unable to adjust spending in time to compensate for any

## Table of Contents

shortfall in net sales. Accordingly, any significant shortfall of revenues in relation to our expectations would harm our operating results.

Our business and operations are especially subject to the risks of earthquakes and other natural catastrophic events.

Our corporate headquarters, including our most significant research and development and manufacturing operations, are located in the Silicon Valley area of Northern California, a region known for seismic activity. We have also established significant manufacturing and research and development operations in Taiwan which is also subject to seismic activity risks. We do not currently have a comprehensive disaster recovery program and as a result, a significant natural disaster, such as an earthquake, could have a material adverse impact on our business, operating results, and financial condition. Although we are in the process of preparing such a program, there is no assurance that it will be effective in the event of such a disaster.

Our operations involve the use of hazardous and toxic materials, and we must comply with environmental laws and regulations, which can be expensive, and may affect our business and operating results.

We are subject to federal, state and local regulations relating to the use, handling, storage, disposal and human exposure to hazardous and toxic materials. If we were to violate or become liable under environmental laws in the future as a result of our inability to obtain permits, human error, accident, equipment failure or other causes, we could be subject to fines, costs, or civil or criminal sanctions, face third party property damage or personal injury claims or be required to incur substantial investigation or remediation costs, which could be material, or experience disruptions in our operations, any of which could have a material adverse effect on our business. In addition, environmental laws could become more stringent over time imposing greater compliance costs and increasing risks and penalties associated with violations, which could harm our business.

We also face increasing complexity in our product design as we adjust to new and future requirements relating to the materials composition of our products, including the restrictions on lead and other hazardous substances applicable to specified electronic products placed on the market in the European Union (Restriction on the Use of Hazardous Substances Directive 2002/95/EC, also known as the RoHS Directive). We are also subject to laws and regulations such as California's "Proposition 65" which requires that clear and reasonable warnings be given to consumers who are exposed to certain chemicals deemed by the State of California to be dangerous, such as lead. We expect that our operations will be affected by other new environmental laws and regulations on an ongoing basis. Although we cannot predict the ultimate impact of any such new laws and regulations, they will likely result in additional costs, and could require that we change the design and/or manufacturing of our products, any of which could have a material adverse effect on our business.

We are also subject to the regulations concerning the supply of minerals coming from the conflict zones in and around the Democratic Republic of Congo. This newer United States legislation includes disclosure requirements regarding the use of conflict minerals mined from the Democratic Republic of Congo and adjoining countries and procedures regarding a manufacturer's efforts to prevent the sourcing of such conflict minerals. The implementation of these requirements could affect the sourcing and availability of minerals used in the manufacture of semiconductor or other devices. As a result, there may only be a limited pool of suppliers who provide conflict-free metals, and we cannot assure you that we will be able to obtain products in sufficient quantities or at competitive prices.

## Risks Related to Owning Our Stock

The trading price of our common stock is likely to be volatile, and you might not be able to sell your shares at or above the price at which you purchased the shares.



## Edgar Filing: Super Micro Computer, Inc. - Form 10-K

The trading prices of technology company securities historically have been highly volatile and the trading price of our common stock has been and is likely to continue to be subject to wide fluctuations. Factors, in addition to those outlined elsewhere in this filing, that may affect the trading price of our common stock include:

- Actual or anticipated variations in our operating results, including failure to achieve previously provided guidance;
- Announcements of technological innovations, new products or product enhancements, strategic alliances or significant agreements by us or by our competitors;
- Changes in recommendations by any securities analysts that elect to follow our common stock;
- The financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- The loss of a key customer;

Table of Contents

- The loss of key personnel;
- Technological advancements rendering our products less valuable;
- Lawsuits filed against us;
- Changes in operating performance and stock market valuations of other companies that sell similar products;
- Price and volume fluctuations in the overall stock market;
- Market conditions in our industry, the industries of our customers and the economy as a whole; and
- Other events or factors, including those resulting from war, incidents of terrorism or responses to these events.

Future sales of shares by existing stockholders could cause our stock price to decline.

Attempts by existing stockholders to sell substantial amounts of our common stock in the public market could cause the trading price of our common stock to decline significantly. All of our shares are eligible for sale in the public market, including shares held by directors, executive officers and other affiliates, sales of which are subject to volume limitations under Rule 144 under the Securities Act. In addition, shares subject to outstanding options and reserved for future issuance under our stock option plans are eligible for sale in the public market to the extent permitted by the provisions of various vesting agreements. If these additional shares are sold, or if it is perceived that they will be sold in the public market, the trading price of our common stock could decline.

If securities analysts do not publish research or reports about our business or if they downgrade our stock, the price of our stock could decline.

The research and reports that industry or financial analysts publish about us or our business likely have an effect on the trading price of our common stock. If an industry analyst decides not to cover our company, or if an industry analyst decides to cease covering our company at some point in the future, we could lose visibility in the market, which in turn could cause our stock price to decline. If an industry analyst downgrades our stock, our stock price would likely decline rapidly in response.

The concentration of our capital stock ownership with insiders will likely limit your ability to influence corporate matters.

As of August 18, 2016, our executive officers, directors, current five percent or greater stockholders and affiliated entities together beneficially owned 44.4% of our common stock, net of treasury stock. As a result, these stockholders, acting together, will have significant influence over all matters that require approval by our stockholders, including the election of directors and approval of significant corporate transactions. Corporate action might be taken even if other stockholders oppose them. This concentration of ownership might also have the effect of delaying or preventing a change of control of our company that other stockholders may view as beneficial.

Provisions of our certificate of incorporation and bylaws and Delaware law might discourage, delay or prevent a change of control of our company or changes in our management and, as a result, depress the trading price of our common stock.

Our certificate of incorporation and bylaws contain provisions that could discourage, delay or prevent a change in control of our company or changes in our management that the stockholders of our company may deem advantageous. These provisions:

- establish a classified board of directors so that not all members of our board are elected at one time;
- require super-majority voting to amend some provisions in our certificate of incorporation and bylaws;
- authorize the issuance of “blank check” preferred stock that our board could issue to increase the number of outstanding shares and to discourage a takeover attempt;

limit the ability of our stockholders to call special meetings of stockholders;  
prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;  
provide that the board of directors is expressly authorized to adopt, or to alter or repeal our bylaws; and  
establish advance notice requirements for nominations for election to our board or for proposing matters that can be acted upon by stockholders at stockholder meetings.

In addition, we are subject to Section 203 of the Delaware General Corporation Law, which, subject to some exceptions, prohibits “business combinations” between a Delaware corporation and an “interested stockholder,” which is

21

---

Table of Contents

generally defined as a stockholder who becomes a beneficial owner of 15% or more of a Delaware corporation's voting stock for a three-year period following the date that the stockholder became an interested stockholder. Section 203 could have the effect of delaying, deferring or preventing a change in control that our stockholders might consider to be in their best interests.

These anti-takeover defenses could discourage, delay or prevent a transaction involving a change in control of our company. These provisions could also discourage proxy contests and make it more difficult for stockholders to elect directors of their choosing and cause us to take corporate actions other than those stockholders desire.

We do not expect to pay any cash dividends for the foreseeable future.

We do not anticipate that we will pay any cash dividends to holders of our common stock in the foreseeable future. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking cash dividends in the foreseeable future should not purchase our common stock.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our principal executive offices, research and development center and production operations are located in San Jose, California where we own approximately 1,046,000 square feet of office and manufacturing space which is subject to existing term loans and revolving line of credit with \$63.1 million remaining outstanding as of June 30, 2016. We lease approximately 247,000 square feet of warehouse in Fremont, California under a lease that expires in 2020, lease approximately 46,000 square feet of office space in San Jose, California under two leases, which expire at various dates through 2017, and lease approximately 5,000 square feet of office in Jersey City, New Jersey under a lease that expires in 2020. Our European headquarters for manufacturing and service operations is located in Den Bosch, the Netherlands where we lease approximately 151,000 square feet of office and manufacturing space under five leases, which expire at various dates through 2025. In Asia, our manufacturing facilities are located in Taoyuan County, Taiwan where we own approximately 211,000 square feet of office and manufacturing space on 7.0 acres of land. These manufacturing facilities are subject to an existing term loan with \$20.4 million remaining outstanding as of June 30, 2016. Our research and development center and service operations in Asia are located in an approximately 76,000 square feet facility in Taipei, Taiwan under seven leases that expire at various dates through 2018. We lease approximately 3,000 square feet of office space in Shanghai and Beijing, China under two leases that expire at various dates through 2018, for sales and service operations. In addition, we lease approximately 2,000 square feet of office space in Japan under one lease, which expires in 2018.

Additionally, we own 36 acres of land in San Jose, California on which we plan to develop and construct a total of five multi-function buildings that will serve as our Green Computing Park. We remodeled one exiting warehouse with approximately 312,000 square feet of storage space and completed the construction of a new manufacturing and warehouse building with approximately 182,000 square feet of manufacturing space in August 2015. In fiscal year 2016, we continued to engage several contractors for the development and construction of improvements on the property. We plan to complete the construction of a second new manufacturing and warehouse building in the fourth quarter of fiscal year 2017. We financed this development through our operating cash flows and additional borrowings from banks. Refer to Note 7 for a discussion of the Company's short-term and long-term obligations.

We believe that our existing properties, including both owned and leased, are in good condition and are suitable for the conduct of our business.

Item 3. Legal Proceedings

From time to time, we have been involved in various legal proceedings arising from the normal course of business activities. We defend ourselves vigorously against any such claims. In management's opinion, the resolution of any pending matters will not have a material adverse effect on our consolidated financial condition, results of operations, or liquidity.

Item 4. Mine Safety Disclosures

Not applicable.

22

---

Table of Contents

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock trades on The NASDAQ Global Select Market under the symbol "SMCI". The following table sets forth for the periods indicated the high and low sale prices of our common stock as reported by The NASDAQ Global Select Market.

	High	Low
Fiscal Year 2015:		
First Quarter	\$29.42	\$24.17
Second Quarter	\$36.53	\$22.85
Third Quarter	\$41.13	\$32.76
Fourth Quarter	\$37.77	\$28.77
	High	Low
Fiscal Year 2016:		
First Quarter	\$30.25	\$24.24
Second Quarter	\$31.82	\$22.32
Third Quarter	\$34.08	\$21.52
Fourth Quarter	\$34.49	\$23.78

Holder

As of August 18, 2016, there were 26 registered stockholders of record of our common stock. Because most of our shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of beneficial stockholders represented by these holders of record.

Dividend Policy

We have never declared or paid cash dividends on our capital stock. We intend to retain any future earnings and do not expect to pay any dividends in the foreseeable future.

Equity Compensation Plan

Please see Part III, Item 12 of this report for disclosure relating to our equity compensation plans.

Stock Performance Graph

This performance graph shall not be deemed "soliciting material" or to be "filed" with the SEC for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of Super Micro Computer, Inc. under the Securities Act of 1933, as amended, or the Exchange Act.

The following graph compares our cumulative five-year total stockholder return on our common stock with the cumulative return of the NASDAQ Computer Index and the NASDAQ Composite Index, which both include our

common stock, for the comparable period.

23

---

Table of Contents

The graph reflects an investment of \$100 (with reinvestment of all dividends, if any) in our common stock, the NASDAQ Computer Index and the NASDAQ Composite Index, on June 30, 2011 and its relative performance tracked through June 30, 2016. The stockholder return shown on the graph below is not necessarily indicative of future performance, and we do not make or endorse any predictions as to future stockholder returns.

	6/30/2011	6/30/2012	6/30/2013	6/30/2014	6/30/2015	6/30/2016
Super Micro Computer, Inc.	100.00	98.57	66.13	157.05	183.84	154.44
NASDAQ Composite Index	100.00	105.82	122.71	158.94	179.80	174.60
NASDAQ Computer Index	100.00	113.27	115.80	161.05	178.46	180.97

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

None.

Item 6. Selected Financial Data

The following selected consolidated financial data is qualified by reference to, and should be read in conjunction with, our Consolidated Financial Statements and notes thereto in Part II, Item 8 and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7, of this Annual Report on Form 10-K. Our historical results are not necessarily indicative of the results to be expected in any future period.



Table of Contents

	Fiscal Years Ended June 30,				
	2016	2015	2014	2013	2012
	(in thousands, except per share data)				
<b>Consolidated Statements of Operations Data:</b>					
Net sales	\$2,215,573	\$1,991,155	\$1,467,202	\$1,162,561	\$1,013,874
Cost of sales	1,884,048	1,670,924	1,241,657	1,002,508	848,457
Gross profit	331,525	320,231	225,545	160,053	165,417
Operating expenses:					
Research and development	123,994	100,257	84,257	75,208	64,223
Sales and marketing	62,841	48,851	38,012	33,785	33,308
General and administrative	37,840	24,377	23,017	23,902	21,872
Total operating expenses	224,675	173,485	145,286	132,895	119,403
Income from operations	106,850	146,746	80,259	27,158	46,014
Interest and other income, net	171	115	92	48	54
Interest expense	(1,594)	(965)	(757)	(610)	(717)
Income before income tax provision	105,427	145,896	79,594	26,596	45,351
Income tax provision	33,406	44,033	25,437	5,317	15,498
Net income	\$72,021	\$101,863	\$54,157	\$21,279	\$29,853
Net income per share:					
Basic	\$1.50	\$2.19	\$1.24	\$0.50	\$0.72
Diluted	\$1.39	\$2.03	\$1.16	\$0.48	\$0.67
Shares used in per share calculation:					
Basic	47,917	46,434	43,599	41,992	40,890
Diluted	51,836	50,094	46,512	43,907	44,152
Stock-based compensation:					
Cost of sales	\$1,098	\$901	\$941	\$953	\$783
Research and development	10,178	8,643	6,783	6,527	5,542
Sales and marketing	1,841	1,553	1,260	1,541	1,469
General and administrative	3,014	2,602	2,078	2,340	2,458
Total stock-based compensation	\$16,131	\$13,699	\$11,062	\$11,361	\$10,252

	As of June 30,				
	2016	2015	2014	2013	2012
	(in thousands)				
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$180,964	\$95,442	\$96,872	\$93,038	\$80,826
Working capital	574,384	460,308	343,195	281,528	261,404
Total assets	1,165,600	1,089,809	796,325	632,257	589,103
Long-term obligations, net of current portion(1)	80,603	16,617	16,208	16,869	30,244
Total stockholders' equity	721,379	619,085	469,231	373,724	338,351

\$40.0 million, \$0.9 million, \$3.7 million, \$6.5 million and \$9.3 million of our long-term obligations, net of current (1)portion consisted of revolving lines of credit and term loans at June 30, 2016, 2015, 2014, 2013 and 2012, respectively.



Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements and related notes which appear elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Annual Report on Form 10-K, particularly under the heading "Risk Factors."

Overview

We are a global leader in high performance, high efficiency server technology and innovation. We develop and provide end-to-end green computing solutions to the cloud computing, data center, enterprise IT, big data, HPC and IoT/embedded markets. Our solutions range from complete server, storage, blade and workstations to full racks, networking devices, server management software and technology support and services. For fiscal years 2016, 2015 and 2014, our net sales were \$2,215.6 million, \$1,991.2 million and \$1,467.2 million, respectively. The increase in our net sales in fiscal year 2016 compared with fiscal year 2015 was primarily due to increased sales of our server systems optimized for OEM/direct customers and cloud/internet data center computing. For fiscal years 2016, 2015 and 2014, net sales of application optimized servers were \$1,525.6 million, \$1,213.6 million and \$740.8 million, respectively, and net sales of subsystems and accessories were \$690.0 million, \$777.5 million and \$726.4 million, respectively. In fiscal year 2016, we experienced strong growth in sales of our complete systems including ultra, data center optimized servers, Twin family of servers, storage and IoT/embedded servers. The percentage of our net sales represented by sales of complete server systems increased to 68.9% in fiscal year 2016 from 60.9% in fiscal year 2015.

We commenced operations in 1993 and have been profitable every year since inception. For fiscal years 2016, 2015 and 2014, our net income was \$72.0 million, \$101.9 million and \$54.2 million, respectively. Our decrease in net income in fiscal year 2016 was primarily attributable to higher operating expenses from headcount increase to support our business growth and the recording of a \$9.3 million out-of-period adjustment relating to extended warranty revenue in the three months ended September 30, 2015. The deferred revenue for the extended warranty will be recognized ratably through fiscal year 2019. The impact on net income from this out-of-period adjustment was \$5.9 million pertaining to prior periods through June 30, 2015.

We sell our server systems and server subsystems and accessories through our direct sales force as well as through distributors and OEMs. For fiscal years 2016, 2015 and 2014, we derived 55.2%, 49.7%, 45.9%, respectively, of our net sales from products sold to OEMs/direct customers and 44.8%, 50.3% and 54.1%, respectively, of our net sales from products sold to distributors. Sales to Softlayer, a division of IBM Corporation, represented 10.9% and 10.1% of our net sales in fiscal years 2016 and 2015, respectively. None of our customers accounted for 10% or more of our net sales in fiscal year 2014. For fiscal years 2016, 2015 and 2014, we derived 63.1%, 58.3% and 55.2%, respectively, of our net sales from customers in the United States.

We perform the majority of our research and development efforts in-house. For fiscal years 2016, 2015 and 2014, research and development expenses represented 5.6%, 5.0% and 5.7% of our net sales, respectively.

We use several suppliers and contract manufacturers to design and manufacture components in accordance with our specifications, with most final assembly and testing performed at our manufacturing facility in San Jose, California. During fiscal year 2016, we have continued to increase manufacturing and service operations in Taiwan and the Netherlands primarily to support our Asian and European customers and have continued to work on improving our utilization of our overseas manufacturing capacity. One of our key suppliers is Ablecom, a related party, which supplies us with contract design and manufacturing support. For fiscal years 2016, 2015 and 2014, our purchases from Ablecom represented 12.8%, 13.6% and 16.3% of our cost of sales, respectively. Ablecom's sales to us constitute a

substantial majority of Ablecom's net sales. We continue to maintain our manufacturing relationship with Ablecom in Asia in an effort to reduce our cost of sales. In addition to providing a large volume of contract manufacturing services for us, Ablecom continues to warehouse for us a number of components and subassemblies manufactured by multiple suppliers prior to shipment to our facilities in the United States and Europe. We typically negotiate the price of products that we purchase from Ablecom on a quarterly basis; however, either party may re-negotiate the price of products with each order. As a result of our relationship with Ablecom, it is possible that Ablecom may in the future sell products to us at a price higher or lower than we could obtain from an unrelated third party supplier. This may result in our future reporting of gross profit as a percentage of net sales that is less than or in excess of what we might have obtained absent our relationship with Ablecom.

## Table of Contents

In order to continue to increase our net sales and profits, we believe that we must continue to develop flexible and customizable server solutions and be among the first to market with new features and products. We must also continue to expand our software and customer service and support offerings, particularly as we increasingly focus on larger enterprise sales. We measure our financial success based on various indicators, including growth in net sales, gross profit as a percentage of net sales, operating income as a percentage of net sales, levels of inventory, and days sales outstanding, or DSOs. In connection with these efforts, we monitor daily and weekly sales and shipment reports. Among the key non-financial indicators of our success is our ability to rapidly introduce new products and deliver the latest application optimized server solutions. In this regard, we work closely with microprocessor and other component vendors to take advantage of new technologies as they are introduced. Historically, our ability to introduce new products rapidly has allowed us to benefit from the introduction of new microprocessors and as a result we monitor the introduction cycles of Intel, AMD and Nvidia carefully. This also impacts our research and development expenditures.

## Other Financial Highlights

The following is a summary of other financial highlights of fiscal year 2016:

Net cash provided by (used in) operating activities was \$107.5 million, \$(44.6) million and \$6.5 million in fiscal year 2016, 2015 and 2014, respectively. Our cash and cash equivalents, together with our investments, were \$183.7 million at the end of fiscal year 2016, compared with \$98.1 million at the end of fiscal year 2015. The increase in our cash and cash equivalents, together with our investments at the end of fiscal year 2016 was primarily due to \$107.5 million of cash provided by our operating activities and \$12.2 million of proceeds from the exercise of stock options, partially offset by \$34.1 million of purchases of property and equipment, of which \$16.7 million was related to property and equipment of manufacturing buildings at our Green Computing Park in San Jose, California, and \$3.4 million was related to the implementation of a new ERP system for the United States headquarters and our subsidiaries.

Days sales outstanding in accounts receivable (“DSO”) at the end of fiscal year 2016 was 50 days, compared with 48 days at the end of fiscal year 2015.

Our inventory balance was \$449.0 million at the end of fiscal year 2016, compared with \$463.5 million at the end of fiscal year 2015. Days sales of inventory (“DSI”) at the end of fiscal year 2016 was 87 days, compared with 84 days at the end of fiscal year 2015.

Our purchase commitments with contract manufacturers and suppliers were \$334.0 million at the end of fiscal year 2016 and \$378.3 million at the end of fiscal year 2015. Included in the non-cancellable commitments are hard disk drive purchase commitments totaling approximately \$110.5 million, which have terms expiring through December 2016. See Note 12 of Notes to our Consolidated Financial Statements in Item 8 of this Form 10-K for a discussion of purchase commitments.

## Fiscal Year

Our fiscal year ends on June 30. References to fiscal year 2016, for example, refer to the fiscal year ended June 30, 2016.

## Revenues and Expenses

Net sales. Net sales consist of sales of our server solutions, including server systems, subsystems and accessories. The main factors which impact our net sales are unit volumes shipped and average selling prices. The prices for server systems range widely depending upon the configuration, and the prices for our subsystems and accessories vary based

on the type. As with most electronics-based products, average selling prices typically are highest at the time of introduction of new products which utilize the latest technology and tend to decrease over time as such products mature in the market and are replaced by next generation products.

Cost of sales. Cost of sales primarily consists of the costs to manufacture our products, including the costs of materials, contract manufacturing, shipping, personnel and related expenses including stock based compensation, equipment and facility expenses, warranty costs and inventory excess and obsolete provisions. The primary factors that impact our cost of sales are the mix of products sold and cost of materials, which include raw material costs, shipping costs and salary and benefits related to production. Cost of sales as a percentage of net sales may increase over time if decreases in average selling prices are not offset by corresponding decreases in our costs. Our cost of sales, as a percentage of net sales, is generally lower

27

---

## Table of Contents

on server systems than on subsystems and accessories, but generally higher in the case of sales of server systems to internet data system customers. Our cost of sales as a percentage of net sales is also impacted by the extent to which we are able to efficiently utilize our expanding manufacturing capacity. Because we generally do not have long-term fixed supply agreements, our cost of sales is subject to change based on market conditions.

**Research and development expenses.** Research and development expenses consist of the personnel and related expenses including stock based compensation of our research and development teams, and materials and supplies, consulting services, third party testing services and equipment and facility expenses related to our research and development activities. All research and development costs are expensed as incurred. We occasionally receive non-recurring engineering, or NRE, funding from certain suppliers and customers. Under these programs, we are reimbursed for certain research and development costs that we incur as part of the joint development of our products and those of our suppliers and customers. These amounts offset a portion of the related research and development expenses and have the effect of reducing our reported research and development expenses.

**Sales and marketing expenses.** Sales and marketing expenses consist primarily of salaries, stock based compensation and incentive bonuses for our sales and marketing personnel, costs for tradeshows, independent sales representative fees and marketing programs. From time to time, we receive cooperative marketing funding from certain suppliers. Under these programs, we are reimbursed for certain marketing costs that we incur as part of the joint promotion of our products and those of our suppliers. These amounts offset a portion of the related expenses and have the effect of reducing our reported sales and marketing expenses. Similarly, we from time to time offer our distributors cooperative marketing funding. To the extent the funding is not recorded as contra-revenue, it has the effect of increasing our expenses. The timing, magnitude and estimated usage of our programs and those of our suppliers can result in significant variations in reported sales and marketing expenses from period to period. Spending on cooperative marketing, either by us or our suppliers, typically increases in connection with significant product releases by us or our suppliers.

**General and administrative expenses.** General and administrative expenses consist primarily of general corporate costs, including personnel expenses, financial reporting, corporate governance and compliance and outside legal, audit and tax fees.

**Interest and other income, net.** Interest and other income, net consist primarily of interest earned on our investment and cash balances.

**Interest expense.** Interest expense represents interest expense on our term loans and lines of credit.

**Income tax provision.** Our income tax provision is based on our taxable income generated in the jurisdictions in which we operate, primarily the United States, Taiwan and the Netherlands. Our effective tax rate differs from the statutory rate primarily due to research and development tax credits and the domestic production activities deduction which were partially offset by the impact of state taxes, stock option expenses and unrecognized tax benefits. A reconciliation of the federal statutory income tax rate to our effective tax rate is set forth in Note 11 of Notes to Consolidated Financial Statements.

## Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses. We evaluate our estimates on an on-going basis, including those related to allowances for doubtful accounts and sales returns, inventory valuations, income taxes,

warranty obligations, stock-based compensation and impairment of short-term and long-term investments. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making the judgments we make about the carrying values of assets and liabilities that are not readily apparent from other sources. Because these estimates can vary depending on the situation, actual results may differ from the estimates.

We believe the following are our most critical accounting policies as they require our more significant judgments in the preparation of our financial statements.

Revenue recognition. We recognize revenue from sales of products when persuasive evidence of an arrangement exists, shipment has occurred and title has transferred, the sales price is fixed or determinable, collection of the resulting receivable is reasonably assured, and all significant obligations have been met. Generally this occurs at the time of shipment when risk of loss and title has passed to the customer if all other revenue recognition criteria have been met. Our standard

28

---



## Table of Contents

arrangement with our customers includes a signed purchase order or contract, 30 to 60 days payment terms, Ex-works terms, except for a few customers who have free-on-board destination terms, for which revenue is recognized when the products arrive at the destination if all other revenue recognition criteria have been met. We also have a few customers who have acceptance provisions for which revenue is recognized when customers provide the necessary acceptance. We generally do not provide for non-warranty rights of return except for products which have “Out-of-box” failure, where customers could return these products for credit within 30 days of receiving the items. Certain distributors and OEMs customers are also permitted to return products in unopened boxes, limited to purchases over a specified period of time, generally within 60 to 90 days of the purchase, or to products in the distributor’s or OEM’s inventory at certain times (such as the termination of the agreement or product obsolescence). To estimate reserves for future sales returns, we regularly review our history of actual returns for each major product line. We also communicate regularly with our distributors to gather information about end customer satisfaction, and to determine the volume of inventory in the channel. Reserves for future returns are adjusted as necessary, based on returns experience, returns expectations and communication with our distributors.

Probability of collection is assessed on a customer-by-customer basis. Customers are subjected to a credit review process that evaluates the customers’ financial position and ability to pay. If it is determined from the outset of an arrangement that collection is not probable based upon the review process, the customers are required to pay cash in advance of shipment. We also make estimates of the uncollectibility of accounts receivables, analyzing accounts receivable and historical bad debts, customer concentration, customer-credit-worthiness, current economic trends and changes in customer payment terms to evaluate the adequacy of the allowance for doubtful accounts. On a quarterly basis, we evaluate aged items in the accounts receivable aging report and provide an allowance in an amount we deem adequate for doubtful accounts. If a major customer's creditworthiness deteriorates, if actual defaults are higher than our historical experience, or if other circumstances arise, our estimates of the recoverability of amounts due to us could be overstated, and additional allowances could be required, which could have an adverse impact on our reported operating expenses. We provide for price protection to certain distributors. We assess the market competition and product technology obsolescence, and make price adjustments based on our judgment. Upon each announcement of price reductions, the accrual for price protection is calculated based on our distributors’ inventory on hand. Such reserves are recorded as a reduction to revenue at the time we reduce the product prices.

Multiple-element arrangements. Our multiple-element product offerings include server systems with embedded software and support, which are considered separate units of accounting.

We allocate revenue to each element in a multiple-element arrangement based upon their relative selling price. When applying the relative selling price method, we determine the selling price for each deliverable using vendor-specific objective evidence (“VSOE”) of selling price, if it exists, or third-party evidence (“TPE”) of selling price. If neither VSOE nor TPE of selling price exist for a deliverable, we use our best estimate of selling price for that deliverable. Revenue allocated to each element is then recognized when all the revenue recognition criteria are met for each element.

We determine VSOE based on its normal pricing and discounting practices for the specific product or service when sold separately. In determining VSOE, we require that a substantial majority of the selling prices for a product or service fall within a reasonably narrow pricing range.

In most instances, we are not able to establish VSOE for all deliverables in an arrangement with multiple elements. This may be due to the infrequently selling each element separately, not pricing products within a narrow range, or only having a limited sales history. When VSOE cannot be established, we attempt to establish the selling price for each element based on TPE. TPE is determined based on competitor prices for similar deliverables when sold separately. Generally, our product solutions differ from that of our peers and contain a significant level of customization and differentiation such that the comparable pricing of products with similar functionality cannot be obtained. Furthermore, we are unable to reliably determine what similar competitor products’ selling prices are on a

stand-alone basis. Therefore, we are typically unable to determine TPE.

When we are unable to establish selling price using VSOE or TPE, we use estimated selling price (“ESP”) in our allocation of the arrangement consideration. The objective of ESP is to determine the price at which we would transact a sale if the product or service were sold on a stand-alone basis. ESP is generally used for offerings that are not typically sold on a stand-alone basis or for new or highly customized offerings.

We determine ESP for a product by considering multiple factors including, but not limited to, geographies, customer types, internal costs, gross margin objectives and pricing practices. The determination of ESP is made through consultation with and approval by our management.

Table of Contents

We regularly review VSOE, TPE and ESP, as well as the establishment and updates of these estimates. There was no material impact on revenues during fiscal year 2016 nor do we expect a material impact in the near term from changes in VSOE, TPE or ESP.

Services revenue. Services revenue mainly consists of extended warranty and on-site services. Extended warranty and on-site services are offered as part of multiple-element arrangements. Revenue related to extended warranty and on-site services is deferred and recognized ratably over the contractual period. These service contracts are typically one to five years in length. Service revenue has been less than 10% of net sales for all periods presented and is not separately disclosed.

Product warranties. We offer product warranties ranging from 15 to 39 months against any defective product. We accrue for estimated returns of defective products at the time revenue is recognized, based on historical warranty experience and recent trends. We monitor warranty obligations and may make revisions to our warranty reserve if actual costs of product repair and replacement are significantly higher or lower than estimated. Accruals for anticipated future warranty costs are charged to cost of sales and included in accrued liabilities. The liability for product warranties was \$5.8 million as of June 30, 2016, compared with \$7.7 million as of June 30, 2015. The provision for warranty reserve was \$17.5 million, \$15.8 million and \$14.2 million in fiscal years 2016, 2015 and 2014, respectively. The change in estimated liability for pre-existing warranties was \$(2.1) million, \$(0.2) million and \$0.4 million in fiscal years 2016, 2015 and 2014, respectively. As a result of our increase in cost of servicing warranty claims from our increase in net sales in fiscal year 2016 and 2015, the provision for warranty reserve increased \$1.7 million and \$1.6 million in fiscal years 2016 and 2015, respectively. If in future periods, we experience or anticipate an increase or decrease in warranty claims as a result of new product introductions or change in unit volumes compared with our historical experience, or if the cost of servicing warranty claims is greater or lesser than expected, we intend to adjust our estimates accordingly.

Inventory valuation. Inventory is valued at the lower of cost or market. We evaluate inventory on a quarterly basis for lower of cost or market and excess and obsolescence and, as necessary, write down the valuation of units based upon the number of units that are unlikely to be sold. This evaluation takes into account matters including expected demand, historical usage and sales, anticipated sales price, product obsolescence and other factors. If actual future demand for our products is less than currently forecasted, additional inventory adjustments may be required. Once a reserve is established, it is maintained until the product to which it relates is sold or scrapped. If a unit that has been written down is subsequently sold, the cost associated with the revenue from this unit is reduced to the extent of the write down, resulting in an increase in gross profit. We monitor the extent to which previously written down inventory is sold at amounts greater or less than carrying value, and based on this analysis, adjust our estimate for determining future write downs. If in future periods, we experience or anticipate a change in recovery rate compared with our historical experience, our gross margin would be affected. Our provision for inventory was \$9.3 million, \$5.9 million and \$2.3 million in fiscal years 2016, 2015 and 2014, respectively.

Accounting for income taxes. We account for income taxes under an asset and liability approach. Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for income tax reporting purposes, net of operating loss carry-forwards and other tax credits measured by applying currently enacted tax laws. Valuation allowances are provided when necessary to reduce deferred tax assets to an amount that is more likely than not to be realized.

We recognize the tax liability for uncertain income tax positions on the income tax return based on a two-step process. The first step is to determine whether it is more likely than not that each income tax position would be sustained upon examination by the tax authority. The second step is to estimate and measure the tax benefit as the amount that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority. Estimating these amounts requires us to determine the probability of various possible outcomes. We evaluate these uncertain tax

positions on a quarterly basis. This evaluation is based on the consideration of several factors, including changes in facts or circumstances, changes in applicable tax law, settlement of issues under audit and new exposures. If we later determine that our exposure is lower or that the liability is not sufficient to cover our revised expectations, we adjust the liability and effect a related change in our tax provision during the period in which we make such determination. See Note 11 of Notes to Consolidated Financial Statements for the impact on our consolidated financial statements.

Stock-based compensation. We measure and recognize compensation expense for all share-based awards made to employees and non-employee members of our Board of Directors including employee stock options and restricted stock units. We are required to estimate the fair value of share-based awards on the date of grant. The value of awards that are ultimately expected to vest is recognized as an expense over the requisite service periods. The fair value of our restricted stock units is based on the closing market price of our common stock on the date of grant. We estimated the fair value of stock options granted using a Black-Scholes option-pricing model and a single option award approach. This model requires us to make estimates and assumptions with respect to the expected term of the option, the expected volatility of the price of our common

Table of Contents

stock and the expected forfeiture rate. The fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period.

The expected term represents the period that our stock-based awards are expected to be outstanding and was determined based on a combination of our peer group and our historical experience. The expected volatility is based on a combination of our implied and historical volatility. In addition, forfeitures of share-based awards are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting option and restricted stock unit forfeitures and record stock-based compensation expense only for those awards that are expected to vest.

Compensation expense for options and restricted stock units granted to employees was \$16.1 million, \$13.7 million and \$11.1 million for fiscal years 2016, 2015 and 2014, respectively. As of June 30, 2016, the total unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested stock options and restricted stock units to employees and non-employee members of our Board of Directors, was \$37.5 million, which is expected to be recognized as an expense over a weighted-average period of approximately 2.29 years. See Note 10 of Notes to our Consolidated Financial Statements for additional information.

Variable interest entities. We have concluded that Ablecom is a variable interest entity in accordance with applicable accounting standards and guidance; however, we are not the primary beneficiary of Ablecom and therefore, we do not consolidate Ablecom. In performing our analysis, we considered our explicit arrangements with Ablecom including the supplier and distributor arrangements. Also, as a result of the substantial related party relationship between the two companies, we considered whether any implicit arrangements exist that would cause us to protect those related parties' interests in Ablecom from suffering losses. We determined that no implicit arrangements exist with Ablecom or its shareholders. Such an arrangement would be inconsistent with the fiduciary duty that we have towards our stockholders who do not own shares in Ablecom.

We and Ablecom jointly established Super Micro Asia Science and Technology Park, Inc. ("Management Company") in Taiwan to manage the common areas shared by us and Ablecom for our separately constructed manufacturing facilities. Each company contributed \$168,000 and own 50% of the Management Company. Although the operations of the Management Company are independent of us, through governance rights, we have the ability to direct the Management Company's business strategies. Therefore, we have concluded that the Management Company is a variable interest entity of us as we are the primary beneficiary of the Management Company. As of June 30, 2016, the accounts of the Management Company have been consolidated with our accounts, and a noncontrolling interest has been recorded for Ablecom's interests in the net assets and operations of the Management Company. In fiscal years 2016, 2015 and 2014, \$20,000, \$(11,000) and \$(6,000) of net income (loss) attributable to Ablecom's interest was included in our general and administrative expenses in the consolidated statements of operations, respectively.

## Results of Operations

## Net Sales

The following table presents net sales by product type for fiscal years 2016, 2015 and 2014 (dollars in millions):

	Years Ended June 30,			2016 over 2015		2015 over	
	2016	2015	2014	Change	%	2014 Change	%
Server systems	\$1,525.6	\$1,213.6	\$740.8	\$312.0	25.7 %	\$472.8	63.8 %
Percentage of total net sales	68.9	% 60.9	% 50.5	%			
Subsystems and accessories	690.0	777.5	726.4	(87.5 )	(11.3)%	51.1	7.0 %
Percentage of total net sales	31.1	% 39.1	% 49.5	%			

Edgar Filing: Super Micro Computer, Inc. - Form 10-K

Total net sales	\$2,215.6	\$1,991.2	\$1,467.2	\$224.4	11.3	%	\$524.0	35.7%
-----------------	-----------	-----------	-----------	---------	------	---	---------	-------

31

---

Table of Contents

The following table presents unit sales and average selling price by product type for fiscal years 2016, 2015 and 2014 (units in thousands):

	Years Ended June 30,			2016	2015
				over 2015	over 2014
	2016	2015	2014	Change %	Change %
Server systems:					
Unit sales	357	314	262	13.7 %	19.8 %
Average selling price	\$4,273	\$3,865	\$2,827	10.6 %	36.7 %
Subsystems and accessories:					
Unit sales	4,125	4,733	4,458	(12.8)%	6.2 %
Average selling price	\$167	\$164	\$163	1.8 %	0.6 %

## Fiscal Year 2016 compared with Fiscal Year 2015

The increase in our net sales in fiscal year 2016 compared with fiscal year 2015 was primarily due to continued increased sales of our products optimized for OEM/direct customers and cloud/internet data center computing who increasingly are purchasing complete server systems from us offset in part by a \$9.3 million out-of-period adjustment relating to extended warranty revenue which was recognized in the three prior fiscal year period ended June 30, 2015 and deferred in the three months ended September 30, 2015. The year-over-year growth in net sales of our server systems in fiscal year 2016 was due primarily to an increase in the average selling price of our server systems and to a lesser extent an increase in the unit volumes of server systems. The average selling prices of our server systems increased primarily due to higher sales of our complete server systems which offer higher density computing and more memory and hard disk drive capacity. The increase in the sales of these complete systems include our ultra, data center optimized servers, Twin family of servers, storage and IoT/embedded servers.

The year-over-year decrease in net sales and unit sales of our subsystems and accessories in fiscal year 2016 was primarily due to a lower sales of hard disk drives and memory bundled with our server solutions to our distributors and system integrators as we are continuing to promote our sales of complete server systems to our OEM and direct customers.

## Fiscal Year 2015 compared with Fiscal Year 2014

The increase in our net sales in fiscal year 2015 compared with fiscal year 2014 was primarily due to continued increased sales of our products optimized for OEM, internet data center cloud computing and enterprise verticals. The year-over-year growth in net sales of our server systems in fiscal year 2015 was due primarily to an increase in the average selling price of our server systems and to a lesser extent an increase in unit volumes of server systems. The average selling prices of our server systems increased primarily due to an increase in average selling prices of our complete server systems which offer higher density computing and more memory and hard disk drive capacity. The increase in the sales of these complete systems include our storage servers and our Twin family of servers and to a lesser extent our GPU/Xeon Phi servers. Net sales also increased as a result of an increase in customers purchasing our software and service together with our complete systems as total solution packages.

The year-over-year growth in net sales and unit sales of our subsystems and accessories in fiscal year 2015 was primarily due to a higher sales of hard disk drives and memory bundled with our server solutions to our distributors and system integrators who increasingly are purchasing additional accessories from us and completing the final assembly themselves.

Edgar Filing: Super Micro Computer, Inc. - Form 10-K

The following table presents the percentages of net sales from products sold to distributors and OEMs and direct customers for fiscal years 2016, 2015 and 2014:

	Years Ended June 30,			2016 over 2015 Change %	2015 over 2014 Change %
	2016	2015	2014		
Distributors	44.8 %	50.3 %	54.1 %	(5.5 )%	(3.8 )%
OEMs and direct customers	55.2 %	49.7 %	45.9 %	5.5 %	3.8 %
Total net sales	100.0%	100.0%	100.0%		

32

---



Table of Contents

The following table presents percentages of net sales by geographic region for fiscal years 2016, 2015 and 2014:

	Years Ended June 30,			2016	2015
				over	over
	2016	2015	2014	2015	2014
				Change	Change
				%	%
United States	63.1 %	58.3 %	55.2 %	4.8 %	3.1 %
Europe	17.4 %	19.0 %	21.6 %	(1.6 )%	(2.6 )%
Asia	14.6 %	16.4 %	20.4 %	(1.8 )%	(4.0 )%
Others	4.9 %	6.3 %	2.8 %	(1.4 )%	3.5 %
Total net sales	100.0%	100.0%	100.0%		

## Cost of Sales and Gross Margin

Cost of sales and gross margin for fiscal years 2016, 2015 and 2014, are as follows (dollars in millions):

	Years Ended June 30,			2016 over 2015		2015 over	
				Change		2014 Change	
	2016	2015	2014	\$	%	\$	%
Total cost of sales	\$1,884.0	\$1,670.9	\$1,241.7	\$213.1	12.8 %	\$429.3	34.6 %
Total gross profit	331.5	320.2	225.5	11.3	3.5 %	94.7	42.0 %
Total gross margin	15.0 %	16.1 %	15.4 %		(1.1 )%		0.7 %

## Fiscal Year 2016 compared with Fiscal Year 2015

The year-over-year increase in absolute dollars of cost of sales in fiscal year 2016 compared to fiscal year 2015 was primarily attributable to the increase in net sales, an increase of \$3.4 million in provision for inventory reserve and an increase of \$1.7 million in provision for warranty reserve. In fiscal year 2016, we recorded a \$9.3 million expense, net of recovery, or 0.4% of net sales, related to the inventory provision as compared to \$5.9 million, or 0.3% of net sales, in fiscal year 2015. The increase in the inventory provision was primarily due to higher inventory reserves for specific products.

In fiscal year 2016, we recorded a \$17.5 million expense, or 0.8% of net sales, related to the provision for warranty reserve as compared to a \$15.8 million expense, or 0.8% of net sales, in fiscal year 2015. The increase in the provision for warranty reserve was primarily due to higher cost of servicing warranty claims from higher net sales in fiscal year 2016. If in future periods we experience or anticipate an increase or decrease in warranty claims as a result of new product introductions or change in unit volumes compared with our historical experience, or if the cost of servicing warranty claims is greater or lesser than expected, our gross margin would be affected.

The year-over-year decrease in the gross margin percentage in fiscal year 2016 compared to fiscal year 2015 was primarily due to significant lower gross margins from sales of our subsystem and accessories, lower utilization of manufacturing capacity and the recording of a \$9.3 million out-of-period adjustment relating to extended warranty revenue which was recognized in the three fiscal year period ended June 30, 2015, offset in part by higher sales of our complete server systems such as storage servers which have a higher gross margin. Gross margin percentage for fiscal year 2016 would have been 15.3% without this out-of-period adjustment.

## Fiscal Year 2015 compared with Fiscal Year 2014

The year-over-year increase in absolute dollars of cost of sales in fiscal year 2015 compared to fiscal year 2014 was primarily attributable to the increase in net sales, an increase of \$3.7 million in provision for inventory reserve and an increase of \$1.6 million in provision for warranty reserve. In fiscal year 2015, we recorded a \$5.9 million expense, net of recovery, or 0.3% of net sales, related to the inventory provision as compared to \$2.3 million, or 0.2% of net sales, in fiscal year 2014. The increase in the inventory provision was primarily due to higher inventory reserves for specific products.

In fiscal year 2015, we recorded a \$15.8 million expense, or 0.8% of net sales, related to the provision for warranty reserve as compared to a \$14.2 million expense, or 1.0% of net sales, in fiscal year 2014. The increase in the provision for warranty reserve was primarily due to higher cost of servicing warranty claims from higher net sales in fiscal year 2015.

Table of Contents

The year-over-year increase in the gross margin percentage in fiscal year 2015 compared to fiscal year 2014 was primarily due to lower costs resulting from an increase in the mix of complete server system sales with higher margin, the increased scale of our business and higher utilization of our manufacturing facilities in Taiwan, offset by higher sales to internet data center customers, which generally have a lower gross margin.

## Operating Expenses

Operating expenses for fiscal years 2016, 2015 and 2014 are as follows (dollars in millions):

	Years Ended June 30,			2016 over		2015 over	
	2016	2015	2014	2015 Change	2014 Change		
	\$	\$	\$	\$	%	\$	%
Research and development	\$124.0	\$100.3	\$84.3	\$23.7	23.7%	\$16.0	19.0%
Percentage of total net sales	5.6	% 5.0	% 5.7				
Sales and marketing	62.8	48.9	38.0	14.0	28.6%	10.8	28.5%
Percentage of total net sales	2.8	% 2.5	% 2.6				
General and administrative	37.8	24.4	23.0	13.5	55.2%	1.4	5.9%
Percentage of total net sales	1.7	% 1.2	% 1.6				
Total operating expenses	224.7	\$173.5	\$145.3	\$51.2	29.5%	\$28.2	19.4%
Percentage of total net sales	10.1	% 8.7	% 9.9				

Research and development expenses. Research and development expenses increased by \$23.7 million, or 23.7% in fiscal year 2016 compared to fiscal year 2015. Research and development expenses were 5.6% and 5.0% of net sales for fiscal year 2016 and 2015, respectively. The increase in absolute dollars was driven primarily by an increase of \$17.3 million in compensation and benefits including stock-based compensation expense, an increase of \$4.4 million in development expenses for prototype materials and no value added tax refund of \$2.8 million on research and development expenses which we received in fiscal year 2015.

Research and development expenses increased by \$16.0 million, or 19.0% in fiscal year 2015 compared to fiscal year 2014. Research and development expenses were 5.0% and 5.7% of net sales for fiscal year 2015 and 2014, respectively. The increase in absolute dollars was driven primarily by an increase of \$18.1 million in compensation and benefits including stock-based compensation expense, an increase of \$1.7 million in development expenses for prototype materials, partially offset by \$3.2 million in non-recurring engineering funding from certain suppliers and customers and a \$2.8 million value added tax refund on research and development expenses. The decrease as a percentage of net sales was primarily due to the increase in net sales in fiscal year 2015.

Research and development expenses include stock-based compensation expense of \$10.2 million, \$8.6 million and \$6.8 million for fiscal year 2016, 2015 and 2014, respectively.

Our compensation and benefit expense in research and development continues to increase resulting from annual salary increases and growth in research and development personnel related to expanded product development initiatives in the United States and in Taiwan. We continue to believe that focused investments in research and development are critical to our future growth and competitive position in the marketplace. Our investments in this area will directly relate to enhancement of our current product line, development of new products that achieve market acceptance, and our ability to meet an expanding range of customer requirements. As such, we expect to continue to spend on current and future product development efforts.

Sales and marketing expenses. Sales and marketing expenses increased by \$14.0 million, or 28.6% in fiscal year 2016 compared to fiscal year 2015. Sales and marketing expenses were 2.8% and 2.5% of net sales for fiscal year 2016 and 2015, respectively. The increase in absolute dollars was primarily due to an increase of \$8.0 million in compensation

and benefits including stock based compensation, resulting primarily from growth in sales and marketing personnel, an increase of \$3.6 million in advertising, marketing promotional and trade show expenses, and a decrease of \$1.1 million in marketing cooperative funding from certain suppliers.

Sales and marketing expenses increased by \$10.8 million, or 28.5% in fiscal year 2015 compared to fiscal year 2014. Sales and marketing expenses were 2.5% and 2.6% of net sales for fiscal year 2015 and 2014, respectively. The increase in absolute dollars was primarily due to an increase of \$7.8 million in compensation and benefits resulting primarily from growth in sales and marketing personnel and an increase of \$2.9 million in advertising, marketing promotional and trade show expenses. The decrease as a percentage of net sales was primarily due to the increase in net sales in fiscal year 2015.

Table of Contents

Sales and marketing expenses include stock-based compensation expense of \$1.8 million, \$1.6 million and \$1.3 million for fiscal year 2016, 2015 and 2014, respectively.

General and administrative expenses. General and administrative expenses increased by \$13.5 million, or 55.2% in fiscal year 2016 compared to fiscal year 2015. General and administrative expenses were 1.7% and 1.2% of net sales for fiscal year 2016 and 2015, respectively. The increase in absolute dollars was primarily due to an increase of \$7.6 million in compensation and benefits including stock-based compensation expense, an increase of \$4.1 million in legal, audit and accounting expenses and an increase of \$1.0 million in bad debt expenses.

General and administrative expenses increased by \$1.4 million, or 5.9% in fiscal year 2015 compared to fiscal year 2014. General and administrative expenses were 1.2% and 1.6% of net sales for fiscal year 2015 and 2014, respectively. The increase in absolute dollars was primarily due to an increase of \$2.3 million in compensation and benefits including stock-based compensation expense, a decrease of \$0.7 million in miscellaneous income relating to the settlement of our outstanding accounts payable with one vendor in the prior year offset in part by an increase of \$1.1 million in foreign currency transaction gain and a decrease of \$1.0 million in bad debt expenses. The decrease as a percentage of net sales was primarily due to the increase in net sales in fiscal year 2015.

General and administrative expenses include stock-based compensation expense of \$3.0 million, \$2.6 million and \$2.1 million for fiscal year 2016, 2015 and 2014, respectively.

## Interest and Other Expense, Net

Interest and other expense, net for fiscal year 2016, 2015 and 2014 are as follows (dollars in millions):

	Years Ended June 30,			2016 over 2015 Change		2015 over 2014 Change	
	2016	2015	2014	\$	%	\$	%
Interest and other income, net	\$0.2	\$0.1	\$0.1	\$0.1	48.7%	\$—	25.0%
Interest expense	(1.6 )	(1.0 )	(0.8 )	(0.6 )	65.2%	(0.2 )	27.5%
Interest and other expense, net	\$(1.4)	\$(0.9)	\$(0.7)	\$(0.6)	67.4%	\$(0.2)	27.8%

Interest and other expense, net. Interest and other expense, net increased by \$0.6 million in fiscal year 2016 compared to fiscal year 2015 and increased by \$0.2 million in fiscal year 2015 compared to fiscal year 2014. The increases were primarily due to higher interest expense on debt.

## Provision for Income Taxes

Provision for income taxes and effective tax rates for fiscal years 2016, 2015 and 2014 are as follows (dollars in millions):

	Years Ended June 30,			2016 over 2015 Change		2015 over 2014 Change	
	2016	2015	2014	\$	%	\$	%
Provision for Income Taxes	\$33.4	\$44.0	\$25.4	\$(10.6)	(24.1)%	\$18.6	73.1%
Percentage of total net sales	1.5 %	2.2 %	1.7 %				
Effective tax rate	31.7 %	30.2 %	32.0 %				

Provision for income taxes. Provision for income taxes decreased by \$10.6 million, or 24.1% in fiscal year 2016 compared to fiscal year 2015. The effective tax rate was 31.7% and 30.2% for fiscal years 2016 and 2015, respectively. The lower income tax provision for fiscal year 2016 was primarily attributable to our lower operating

income. The effective tax rate for fiscal year 2016 was higher primarily due to the lower foreign rate benefits and foreign unrecognized tax benefits offset in part by the increase in federal research and development credit as a result of the enactment of the Protecting Americans from Tax Hikes ("PATH") Act of 2015.

Provision for income taxes increased by \$18.6 million, or 73.1% in fiscal year 2015 compared to fiscal year 2014. The effective tax rate was 30.2% and 32.0% for fiscal year 2015 and 2014, respectively. The higher income tax provision for fiscal year 2015 was primarily attributable to our higher operating income. The effective tax rate for fiscal year 2015 was lower primarily due to the release of unrecognized tax benefits due to the lapse of statute of limitations, reinstatement of the United

## Table of Contents

States federal research and development tax credits, higher income taxed by foreign jurisdictions with lower tax rates and lower add back for stock compensation expenses.

### Liquidity and Capital Resources

Since our inception, we have financed our growth primarily with funds generated from operations and from the proceeds of our initial public offering. In addition, we have, from time to time, utilized borrowing facilities, particularly in relation to the financing of real property acquisitions. Our cash and cash equivalents and short-term investments were \$181.0 million and \$95.5 million as of June 30, 2016 and 2015, respectively. Our cash in foreign locations was \$46.5 million and \$26.3 million at June 30, 2016 and 2015, respectively. It is management's intention to reinvest the undistributed foreign earnings indefinitely in foreign operations.

Operating Activities. Net cash provided by (used in) operating activities was \$107.5 million, \$(44.6) million and \$6.5 million for fiscal years 2016, 2015 and 2014, respectively.

Net cash provided by our operating activities for fiscal year 2016 was primarily due to our net income of \$72.0 million, a decrease in accounts receivable of \$32.4 million, an increase in other long term liabilities of \$24.9 million, stock-based compensation expense of \$16.1 million, depreciation expense of \$13.3 million, provision for inventory of \$9.3 million and an increase in accrued liabilities of \$9.0 million, which were partially offset by a decrease in accounts payable of \$54.3 million and an increase in prepaid expenses and other assets of \$8.2 million.

Net cash used in our operating activities for fiscal year 2015 was primarily due to an increase in inventory of \$153.6 million and an increase in accounts receivable of \$110.2 million, which were partially offset by our net income of \$101.9 million, an increase in accounts payable of \$75.5 million, stock-based compensation expense of \$13.7 million, an increase in net income taxes payable of \$12.0 million, an increase in accrued liabilities of \$9.6 million, depreciation expense of \$8.1 million and provision for inventory of \$5.9 million.

Net cash provided by our operating activities for fiscal year 2014 was primarily due to our net income of \$54.2 million, an increase in accounts payable of \$46.3 million, stock-based compensation expense of \$11.1 million, an increase in net income taxes payable of \$10.9 million, depreciation expense of \$6.4 million and an increase in accrued liabilities of \$3.3 million, provision for inventory of \$2.3 million, which were partially offset by an increase in accounts receivable of \$64.9 million, an increase in inventory of \$63.9 million and the excess tax benefits from stock-based compensation of \$3.0 million.

The decrease for fiscal year 2016 in accounts receivable was primarily due to lower sales volume in the fourth quarter of fiscal year 2016. The decrease for fiscal year 2016 in inventory and accounts payable was primarily due to anticipated lower sales volume in the first quarter of fiscal year 2017. We anticipate that accounts receivable, inventory and accounts payable will increase to the extent we continue to grow our product lines and our business in fiscal year 2016.

The increase for fiscal year 2014 and 2015 in accounts receivable was primarily due to an increase in our sales late in the fourth quarter. The increase for fiscal year 2014 and 2015 in inventory and accounts payable was primarily due to higher purchases to support the anticipated level of growth in our net sales in fiscal year 2015.

Investing activities. Net cash used in our investing activities was \$35.1 million, \$36.2 million and \$40.2 million for fiscal years 2016, 2015 and 2014, respectively. In fiscal year 2016, of the net cash used in our investing activities, \$34.1 million was related to the purchase of property, plant and equipment, of which \$16.7 million was related to property and equipment of manufacturing buildings at our Green Computing Park in San Jose, California, and \$3.4 million was related to the implementation of a new ERP system for the United States headquarters and our

subsidiaries. We plan to continue the development and construction of improvements to our properties through fiscal year 2017. We anticipate investing approximately \$17.0 million through April 2017 to complete the construction of a second manufacturing facility and the remodel of our office building. We plan to finance this development through our operating cash flows and additional borrowings from banks.

In fiscal year 2015, the \$35.1 million included in net cash used in our investing activities was related to the purchase of property, plant and equipment including \$21.8 million related to the development and construction of improvements to our first manufacturing building and warehouse at our Green Computing Park in San Jose, California, which was completed in August 2015 and \$4.8 million related to the implementation of a new ERP system.



## Table of Contents

In fiscal year 2014, the \$40.6 million included in net cash used in our investing activities was related to the purchase of property, plant and equipment including \$30.2 million related to the real property purchased in San Jose, California in October 2013, offset in part by the termination of the certificates of deposits for \$0.4 million, which were pledged as security for a value added tax examination required by tax authorities of Taiwan.

Financing activities. Net cash provided by our financing activities was \$13.1 million, \$80.1 million and \$37.2 million for fiscal years 2016, 2015 and 2014, respectively. In fiscal year 2016, we borrowed an additional \$34.2 million under our revolving lines of credit from Bank of America and CTBC Bank and repaid \$34.1 million in loans. Further, we received \$12.2 million related to the proceeds from the exercise of stock options in fiscal year 2016.

In fiscal year 2015, we borrowed an additional \$84.9 million under our revolving line of credit from Bank of America and CTBC Bank and repaid \$36.0 million in loans. Further, we received \$23.3 million related to the proceeds from the exercise of stock options in fiscal year 2015.

In fiscal year 2014, we received \$23.9 million related to the proceeds from the exercise of stock options. We withheld shares and paid the minimum tax withholding for restricted stock awards of \$0.7 million in fiscal year 2014. Further, we borrowed an additional \$6.8 million under the line of credit from Bank of America, borrowed \$7.0 million from the CTBC Bank secured term loan, and borrowed \$3.5 million of our CTBC Bank revolving line of credit and repaid \$6.3 million in loans in fiscal year 2014.

In fiscal year 2016, 2015 and 2014, \$2.9 million, \$8.1 million and \$3.0 million was related to the excess tax benefits from stock-based compensation, respectively. We expect the net cash provided by financing activities will increase throughout fiscal year 2017 as we intend to obtain additional financing from banks for our working capital requirements.

We expect to experience continued growth in our working capital requirements and capital expenditures as we continue to expand our business. Our long-term future capital requirements will depend on many factors, including our level of revenues, the timing and extent of spending to support our product development efforts, the expansion of sales and marketing activities, the timing of our introductions of new products, the costs to ensure access to adequate manufacturing capacity and the continuing market acceptance of our products. We intend to fund this continued expansion through cash generated by operations and by drawing on the revolving credit facility or through other debt financing. However we cannot be certain whether such financing will be available on commercially reasonable or otherwise favorable terms or that such financing will be available at all. We anticipate that working capital and capital expenditures will constitute a material use of our cash resources. We have sufficient cash on hand to continue to operate for at least the next 12 months.

Other factors affecting liquidity and capital resources

Activities under Revolving Lines of Credit and Term Loans

Bank of America

In June 2015, we entered into an amendment to our existing credit agreement with Bank of America, which provided for (i) a \$65.0 million revolving line of credit facility and (ii) a five-year \$14.0 million term loan facility. The term loan is secured by three buildings located in San Jose, California and the principal and interest are payable monthly through September 30, 2016 with an interest rate at the LIBOR rate plus 1.50% per annum. In May 2016, we extended the revolving line of credit to mature on June 30, 2016.

In June 2016, we entered into a new credit agreement with Bank of America, which provided for (i) a \$55.0 million revolving line of credit facility including a \$5.0 million letter of credit sublimit that matures on June 30, 2017 and (ii) a five-year \$50.0 million term loan facility. This revolving line of credit facility replaces the existing revolving line of credit facility with Bank of America. This additional term loan is secured by seven buildings located in San Jose, California and property, plant and equipment and inventory in those buildings. The principal and interest of the term loan are payable monthly through June 30, 2021 with an interest rate at the LIBOR rate plus 1.25% per annum.

The interest rate for the revolving line of credit under the above credit agreements with Bank of America is at the LIBOR rate plus 1.25% per annum. The LIBOR rate was 0.46% at June 30, 2016. The letter of credit is charged at 1.25% per annum. In July 2016, we received \$50.0 million term loan proceeds from Bank of America under the new credit agreement with interest rate at 1.71% per annum and paid down the outstanding amounts under the revolving line of credit with Bank of America. As of June 30, 2016, we have reclassified \$50.0 million of our line of credit to long-term loan.

## Table of Contents

In June 2016, we also entered into a separate credit agreement with Bank of America, which provided for a revolving line of credit of \$10.0 million for our Taiwan subsidiary that matures on June 30, 2017. The interest rate of the revolving line of credit is equal to a minimum of 0.9% per annum plus the lender's cost of fund.

As of June 30, 2016 and 2015, the total outstanding borrowings under the Bank of America term loan was \$0.9 million and \$3.7 million, respectively. The total outstanding borrowings under the Bank of America lines of credit was \$62.2 million and \$59.7 million as of June 30, 2016 and 2015, respectively. The interest rates for these loans ranged from 1.02% to 1.96% per annum at June 30, 2016 and 0.79% to 1.68% per annum at June 30, 2015, respectively. As of June 30, 2016, the unused revolving lines of credit and term loan amount under Bank of America under the new credit agreements were \$2.8 million and \$50.0 million, respectively.

### CTBC Bank

In November 2015, we entered into an amendment to the existing credit agreement with CTBC Bank Co., Ltd ("CTBC Bank") that provides for (i) a 12-month NTD\$700 million or \$22.0 million U.S. dollar equivalent term loan secured by the land and building located in Bade, Taiwan with an interest rate equal to the lender's established NTD interest rate plus 0.25% per annum which is adjusted monthly and (ii) a 12-month revolving line of credit up to 80.0% of eligible accounts receivable in an aggregate amount of up to \$17.0 million with an interest rate equal to the lender's established USD interest rate plus 0.30% per annum which is adjusted monthly. The total borrowings allowed under the credit agreement are capped at NT\$1.0 billion or \$30.3 million U.S. dollar equivalent. In January 2016, we extended the revolving line of credit to mature on March 31, 2016.

In April 2016, we entered into a new credit agreement with CTBC Bank that provides for (i) a 12-month NTD\$700.0 million or \$21.6 million U.S. dollar equivalent term loan facility secured by the land and building located in Bade, Taiwan with an interest rate equal to the lender's established NTD interest rate plus 0.25% per annum which is adjusted monthly. This term loan facility also includes a 12-month customs bond up to NTD\$100.0 million or \$3.1 million U.S. dollar equivalent with an annual fee equal to 0.5% per annum, and (ii) a 12-month revolving line of credit up to 80.0% of eligible accounts receivable in an aggregate amount of up to \$40.0 million with an interest rate equal to the lender's established USD interest rate plus 0.30% per annum which is adjusted monthly. The total borrowings allowed under the credit agreement are capped at \$40.0 million. The credit agreement matures on March 31, 2017.

The total outstanding borrowings under the CTBC Bank term loan was denominated in Taiwanese dollars and was translated into U.S. dollars of \$20.4 million and \$21.3 million as of June 30, 2016 and 2015, respectively. At June 30, 2016 and 2015, the total outstanding borrowings under the CTBC Bank revolving line of credit was \$10.1 million and \$9.7 million, respectively, in U.S. dollars. The interest rate for these loans were ranged from 0.90% and 1.25% at June 30, 2016 and 0.82% and 1.16% per annum at June 30, 2015. At June 30, 2016, available for future borrowing under this credit agreement was \$9.5 million.

### Covenant Compliance

The new credit agreement with Bank of America contain customary representations and warranties and customary affirmative and negative covenants applicable to us and our subsidiaries. The new credit agreement contain certain financial covenants, including the following:

- Not to incur on a consolidated basis, a net loss before taxes and extraordinary items for any two consecutive fiscal quarters;
- The Consolidated Leverage Ratio, as defined in the agreement, as of the end of any fiscal quarter, measured for the most recently completed twelve (12) months of the Company, shall not be greater than 2.00;
- The domestic unencumbered liquid assets, as defined in the agreement, maintained in accounts within the United States shall have an aggregate market value of not less than \$30,000,000, measured quarterly as of the last day of each

fiscal quarter.

As of June 30, 2016, our total assets of \$934.6 million collateralized the line of credit with Bank of America under the new credit agreement which represent the total assets of the United States headquarter company, except for seven buildings located in San Jose, California and property, plant and equipment and inventory in those buildings. As of June 30, 2016, total assets collateralizing the term loan with Bank of America were \$59.3 million. As of June 30, 2016, we were in compliance with all financial covenants associated with the term loan and lines of credit with Bank of America under the new credit agreement.

As of June 30, 2016, the net book value of land and building located in Bade, Taiwan collateralizing the term loan with CTBC Bank was \$26.8 million. There are no financial covenants associated with the term loan with CTBC Bank.

38

---

Table of Contents

## Contract Manufacturers

In fiscal year 2016, we paid our contract manufacturers within 40 to 74 days of invoice and Ablecom between 48 to 90 days of invoice. Ablecom is one of our major contract manufacturers and a related party. As of June 30, 2016 and 2015 amounts owed to Ablecom by us were approximately \$39.2 million and \$59.0 million, respectively.

## Share Repurchase Program

In July 2016, our Board of Directors adopted a program to repurchase from time to time at management's discretion up to \$100,000,000 of our common stock in the open market or in private transactions during the next twelve months at prevailing market prices. Repurchases will be made under the program using our own cash resources. This share repurchase program does not obligate us to acquire any particular amount of common stock, and it may be suspended at any time at our discretion. In July 2016, we purchased 513,194 shares of our common stock in the open market at a weighted average price of \$19.97 per share for approximately \$10.3 million.

## Contractual Obligations

The following table describes our contractual obligations as of June 30, 2016:

	Payments Due by Period				Total
	Less Than 1 Year	3 to 5 Years	3 to 5 Years	More Than 5 Years	
	(in thousands)				
Operating leases	\$4,271	\$ 7,622	\$ 5,399	\$ 2,631	\$19,923
Capital leases, including interest	261	429	132	—	822
Debt, including interest (1)	54,370	21,041	20,358	—	95,769
Purchase commitments (2)	334,010	—	—	—	334,010
Total (3)	\$392,912	\$ 29,092	\$ 25,889	\$ 2,631	\$450,524

(1) Amount reflects total anticipated cash payments, including anticipated interest payments based on the interest rate at June 30, 2016.

(2) Amount reflects total gross purchase commitments under our manufacturing arrangements with third-party contract manufacturers or vendors. Our purchase obligations included \$110.5 million of hard disk drive purchase commitments at June 30, 2016, which will be paid through December 2016. See Note 12 of Notes to our Consolidated Financial Statements in Item 8 of this Form 10-K for a discussion of purchase commitments.

(3) The table above excludes liabilities for deferred revenue of \$35.4 million and unrecognized tax benefits and related interest and penalties accrual of \$16.1 million. We have not provided a detailed estimate of the payment timing of unrecognized tax benefits due to the uncertainty of when the related tax settlements will become due. See Note 11 of Notes to our Consolidated Financial Statements in Item 8 of this Form 10-K for a discussion of income taxes.

We expect to fund our remaining contractual obligations from our ongoing operations and existing cash and cash equivalents on hand.

## Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued new accounting guidance related to revenue recognition. This new standard replaces all current U.S. GAAP guidance on revenue, eliminates all industry-specific

guidance and provides a unified model in determining when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of 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. Further, in March 2016, the FASB issued an amendment to the accounting guidance related to revenue from contracts with customers - principal versus agent considerations. In April 2016, the FASB issued an amendment to the accounting guidance related to revenue from contracts with customers - identifying performance obligations and licensing. This guidance can be applied either retrospectively or as a cumulative-effect adjustment as of the date of adoption. Early adoption is permitted for annual periods beginning after December 15, 2016. The new standard is effective for us on July 1, 2018. We are currently evaluating the timing of our

Table of Contents

adoption and the impact of adopting the new revenue guidance on our financial statement disclosures, results of operations and financial position.

In April 2015, the FASB issued an amendment to the accounting guidance related to presentation of debt issuance costs. The amendment requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. In August 2015, the FASB issued an amendment to the accounting guidance related to presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. The amendment clarified that an entity may defer and present debt issuance costs associated with line-of-credit arrangements as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The amendment is effective for us on July 1, 2016. We are currently evaluating the effect the amendment to the guidance will have on our financial statement disclosures, results of operations and financial position.

In July 2015, the FASB issued an amendment to the authoritative guidance related to inventory measurement. The amendment requires entities to measure inventory at the lower of cost and net realizable value thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. The amendment is effective for us on July 1, 2017. We are currently evaluating the effect the amendment to the guidance will have on our financial statement disclosures, results of operations and financial position.

In November 2015, the FASB issued an amendment to the accounting guidance related to balance sheet classification of deferred taxes. The amendment requires that all deferred tax assets and liabilities be classified as noncurrent in a classified balance sheet. Early adoption is permitted as of the beginning of an interim or annual reporting period. The amendment is effective for us on July 1, 2017. We have adopted this guidance on a prospective basis for the fiscal year ended June 30, 2016. Adoption of this guidance resulted in a reclassification of our net current deferred tax asset of \$17.9 million to the net non-current deferred tax asset in our Consolidated Balance Sheet as of June 30, 2016. No prior periods were retrospectively adjusted.

In February 2016, the FASB issued an amendment to the accounting guidance related to leases. The amendment will supersede the existing lease guidance, including on-balance sheet recognition of operating leases for lessees. This amendment should be applied using a modified retrospective approach and is effective for us on July 1, 2018. Early adoption is permitted. We are currently evaluating the effect the guidance will have on our financial statement disclosures, results of operations and financial position.

In March 2016, the FASB issued new accounting guidance on the accounting for certain aspects of share-based payments to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. This guidance is effective for us on July 1, 2017. We are currently evaluating the effect the guidance will have on our financial statement disclosures, results of operations and financial position.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Table of Contents

Item 7A. Quantitative and Qualitative Disclosure about Market Risk

Interest Rate Risk

The primary objectives of our investment activities are to preserve principal, provide liquidity and maximize income without significantly increasing the risk. Some of the securities we invest in are subject to market risk. This means that a change in prevailing interest rates may cause the fair value of the investment to fluctuate. To minimize this risk, we maintain our portfolio of cash equivalents and short-term investments in money market funds and certificates of deposit. Our long-term investments include auction rate securities, which have been classified as long-term due to the lack of a liquid market for these securities. Since our results of operations are not dependent on investments, the risk associated with fluctuating interest rates is limited to our investment portfolio, and we believe that a 10% change in interest rates would not have a significant impact on our results of operations. As of June 30, 2016, our investments were in money market funds, certificates of deposits and auction rate securities.

We are exposed to changes in interest rates as a result of our borrowings under our term loan and revolving lines of credit. The interest rates for the term loans and the revolving lines of credit ranged from 0.90% to 1.96% at June 30, 2016 and 0.79% to 1.68% at June 30, 2015, respectively. Based on the outstanding principal indebtedness of \$93.6 million under our credit facilities as of June 30, 2016, we believe that a 10% change in interest rates would not have a significant impact on our results of operations.

Foreign Currency Risk

To date, our international customer and supplier agreements have been denominated primarily in U.S. dollars, and accordingly, we have limited exposure to foreign currency exchange rate fluctuations from customer agreements, and do not currently engage in foreign currency hedging transactions. However, the functional currency of our operations in the Netherlands and Taiwan is the U.S. dollar and our local accounts including financing arrangements are denominated in the local currency in the Netherlands and Taiwan, respectively, and thus we are subject to foreign currency exchange rate fluctuations associated with re-measurement to U.S. dollars. Such fluctuations have not been significant historically. Foreign exchange gain (loss) for fiscal years 2016, 2015 and 2014 was \$1.5 million, \$0.7 million and \$(0.4) million, respectively.



Table of Contents

Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	<u>43</u>
<u>Consolidated Balance Sheets</u>	<u>44</u>
<u>Consolidated Statements of Operations</u>	<u>45</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>46</u>
<u>Consolidated Statements of Stockholders' Equity</u>	<u>47</u>
<u>Consolidated Statements of Cash Flows</u>	<u>48</u>
<u>Notes to Consolidated Financial Statements</u>	<u>49</u>

42

---

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Super Micro Computer, Inc.  
San Jose, California

We have audited the accompanying consolidated balance sheets of Super Micro Computer, Inc. and subsidiaries (the “Company”) as of June 30, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, stockholders’ equity, and cash flows for each of the three years in the period ended June 30, 2016. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Super Micro Computer, Inc. and subsidiaries as of June 30, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2016, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 9 to the consolidated financial statements, the Company has significant purchases from and sales to a related party.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of June 30, 2016, based on the criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 26, 2016 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ Deloitte & Touche LLP  
San Jose, California  
August 26, 2016

Table of Contents

SUPER MICRO COMPUTER, INC.  
CONSOLIDATED BALANCE SHEETS  
(in thousands, except share amounts)

	June 30, 2016	June 30, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 180,964	\$ 95,442
Accounts receivable, net of allowances of \$2,721 and \$1,628 at June 30, 2016 and 2015, respectively (including amounts receivable from a related party of \$4,678 and \$13,186 at June 30, 2016 and 2015, respectively)	288,941	322,594
Inventory	448,980	463,493
Deferred income taxes-current	—	17,863
Prepaid income taxes	5,682	7,507
Prepaid expenses and other current assets	13,435	7,516
Total current assets	938,002	914,415
Long-term investments	2,643	2,633
Property, plant and equipment, net	187,949	163,038
Deferred income taxes-noncurrent	28,460	4,497
Other assets	8,546	5,226
Total assets	\$ 1,165,600	\$ 1,089,809
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable (including amounts due to a related party of \$39,152 and \$59,015 at June 30, 2016 and 2015, respectively)	\$ 249,239	\$ 299,774
Accrued liabilities	55,618	46,743
Income taxes payable	5,172	14,111
Short-term debt and current portion of long-term debt	53,589	93,479
Total current liabilities	363,618	454,107
Long-term debt-net of current portion	40,000	933
Other long-term liabilities	40,603	15,684
Total liabilities	444,221	470,724
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock and additional paid-in capital, \$0.001 par value		
Authorized shares: 100,000,000		
Issued shares: 48,999,717 and 47,873,744 at June 30, 2016 and 2015, respectively	277,339	247,081
Treasury stock (at cost), 445,028 shares at June 30, 2016 and 2015	(2,030)	(2,030)
Accumulated other comprehensive loss	(85)	(80)
Retained earnings	445,971	373,950
Total Super Micro Computer, Inc. stockholders' equity	721,195	618,921
Noncontrolling interest	184	164
Total stockholders' equity	721,379	619,085
Total liabilities and stockholders' equity	\$ 1,165,600	\$ 1,089,809

See accompanying notes to consolidated financial statements.



Table of Contents

SUPER MICRO COMPUTER, INC.  
 CONSOLIDATED STATEMENTS OF OPERATIONS  
 (in thousands, except per share amounts)

	Years Ended June 30,		
	2016	2015	2014
Net sales (including related party sales of \$19,453, \$58,013 and \$14,576 in fiscal years 2016, 2015 and 2014, respectively)	\$2,215,573	\$1,991,155	\$1,467,202
Cost of sales (including related party purchases of \$241,836, \$227,562 and \$201,848 in fiscal years 2016, 2015 and 2014, respectively)	1,884,048	1,670,924	1,241,657
Gross profit	331,525	320,231	225,545
Operating expenses:			
Research and development	123,994	100,257	84,257
Sales and marketing	62,841	48,851	38,012
General and administrative	37,840	24,377	23,017
Total operating expenses	224,675	173,485	145,286
Income from operations	106,850	146,746	80,259
Interest and other income, net	171	115	92
Interest expense	(1,594)	(965)	(757)
Income before income tax provision	105,427	145,896	79,594
Income tax provision	33,406	44,033	25,437
Net income	\$72,021	\$101,863	\$54,157
Net income per common share:			
Basic	\$1.50	\$2.19	\$1.24
Diluted	\$1.39	\$2.03	\$1.16
Weighted-average shares used in calculation of net income per common share:			
Basic	47,917	46,434	43,599
Diluted	51,836	50,094	46,512

See accompanying notes to consolidated financial statements.

Table of Contents

SUPER MICRO COMPUTER, INC.  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (in thousands)

	Years Ended June 30,		
	2016	2015	2014
Net income	\$72,021	\$101,863	\$54,157
Other comprehensive income, net of tax:			
Foreign currency translation loss	(11 )	(9 )	—
Unrealized gains (loss) on investments	6	(8 )	6
Total other comprehensive income (loss)	(5 )	(17 )	6
Comprehensive income	\$72,016	\$101,846	\$54,163

See accompanying notes to consolidated financial statements.

Table of Contents

SUPER MICRO COMPUTER, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(in thousands, except share amounts)

	Common Stock and Additional Paid-In Capital		Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Non-controlling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at June 30, 2013	42,744,500	\$ 157,712	(445,028)	\$(2,030)	\$ (69 )	\$ 217,930	\$ 181	\$ 373,724
Exercise of stock options	2,863,878	23,928	—	—	—	—	—	23,928
Issuance of restricted stock awards, net of taxes	131,558	(681 )	—	—	—	—	—	(681 )
Stock-based compensation	—	11,062	—	—	—	—	—	11,062
Tax benefit resulting from stock option transactions	—	7,041	—	—	—	—	—	7,041
Unrealized gain on investments	—	—	—	—	6	—	—	6
Net income	—	—	—	—	—	54,157	(6 )	54,151
Balance at June 30, 2014	45,739,936	199,062	(445,028)	(2,030 )	(63 )	272,087	175	469,231
Exercise of stock options	2,124,401	23,338	—	—	—	—	—	23,338
Issuance of restricted stock units, net of taxes	9,407	(175 )	—	—	—	—	—	(175 )
Stock-based compensation	—	13,699	—	—	—	—	—	13,699
Tax benefit resulting from stock option and restricted stock unit transactions	—	11,157	—	—	—	—	—	11,157
Unrealized loss on investments	—	—	—	—	(8 )	—	—	(8 )
Translation adjustments	—	—	—	—	(9 )	—	—	(9 )
Net income	—	—	—	—	—	101,863	(11 )	101,852
Balance at June 30, 2015	47,873,744	247,081	(445,028)	(2,030 )	(80 )	373,950	164	619,085
Exercise of stock options	1,013,430	12,186	—	—	—	—	—	12,186
Issuance of restricted stock units, net of taxes	112,543	(1,786 )	—	—	—	—	—	(1,786 )
Stock-based compensation	—	16,131	—	—	—	—	—	16,131
Tax benefit resulting from stock option and restricted stock unit transactions	—	3,727	—	—	—	—	—	3,727
Unrealized gain on investments	—	—	—	—	6	—	—	6
Translation adjustments	—	—	—	—	(11 )	—	—	(11 )
Net income	—	—	—	—	—	72,021	20	72,041
Balance at June 30, 2016	48,999,717	\$ 277,339	(445,028)	\$(2,030)	\$ (85 )	\$ 445,971	\$ 184	\$ 721,379

See accompanying notes to consolidated financial statements.





Table of Contents

SUPER MICRO COMPUTER, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)

	Years Ended June 30,		
	2016	2015	2014
<b>OPERATING ACTIVITIES:</b>			
Net income	\$72,021	\$101,863	\$54,157
Reconciliation of net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	13,282	8,133	6,364
Stock-based compensation expense	16,131	13,699	11,062
Excess tax benefits from stock-based compensation	(2,855)	(8,089)	(2,992)
Allowance for doubtful accounts	1,278	326	1,476
Provision for inventory	9,313	5,928	2,254
Exchange gain	(1,233)	(675)	(96)
Deferred income taxes	(6,133)	632	65
Changes in operating assets and liabilities:			
Accounts receivable, net (including changes in related party balances of \$8,508, \$(12,565) and \$353 in fiscal years 2016, 2015, 2014, respectively)	32,375	(110,182)	(64,874)
Inventory	5,200	(153,584)	(63,921)
Prepaid expenses and other assets	(8,210)	(2,741)	618
Accounts payable (including changes in related party balances of \$(19,863), \$10,046 and \$(1,479) in fiscal years 2016, 2015 and 2014, respectively)	(54,301)	75,520	46,298
Income taxes payable, net	(3,260)	11,951	10,880
Accrued liabilities	9,027	9,551	3,293
Other long-term liabilities	24,874	3,032	1,954
Net cash provided by (used in) operating activities	107,509	(44,636)	6,538
<b>INVESTING ACTIVITIES:</b>			
Purchases of property, plant and equipment	(34,108)	(35,100)	(40,567)
Change in restricted cash	(1,020)	(416)	406
Investment in a privately held company	—	(661)	—
Net cash used in investing activities	(35,128)	(36,177)	(40,161)
<b>FINANCING ACTIVITIES:</b>			
Proceeds from debt	34,200	84,900	17,354
Repayment of debt	(34,100)	(36,000)	(6,320)
Proceeds from exercise of stock options	12,186	23,338	23,928
Excess tax benefits from stock-based compensation	2,855	8,089	2,992
Payment of obligations under capital leases	(189)	(134)	(47)
Advances (payments) under receivable financing arrangements	(21)	33	(4)
Minimum tax withholding paid on behalf of employees for restricted stock awards / units	(1,786)	(175)	(681)
Net cash provided by financing activities	13,145	80,051	37,222
Effect of exchange rate fluctuations on cash	(4)	(668)	235
Net increase (decrease) in cash and cash equivalents	85,522	(1,430)	3,834
Cash and cash equivalents at beginning of year	95,442	96,872	93,038
Cash and cash equivalents at end of year	\$180,964	\$95,442	\$96,872
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$1,632	\$933	\$757
Cash paid for taxes, net of refunds	\$36,951	\$30,671	\$13,096

Edgar Filing: Super Micro Computer, Inc. - Form 10-K

Non-cash investing and financing activities:

Equipment purchased under capital leases	\$299	\$442	\$283
Accrued costs for property, plant and equipment purchases	\$10,888	\$6,826	\$2,021

See accompanying notes to consolidated financial statements.

48

---

Table of Contents

SUPER MICRO COMPUTER, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Organization

Super Micro Computer, Inc. (“Super Micro Computer”) was incorporated in 1993. Super Micro Computer is a global leader in server technology and green computing innovation. Super Micro Computer develops and provides high performance server solutions based upon an innovative, modular and open-standard architecture. Super Micro Computer has operations primarily in San Jose, California, the Netherlands, Taiwan, China and Japan.

Basis of Presentation

The consolidated financial statements reflect the consolidated balance sheets, results of operations and cash flows of Super Micro Computer, Inc. and its wholly-owned subsidiaries (collectively, the “Company”). All intercompany accounts and transactions have been eliminated in consolidation.

The Company consolidates its investment in Super Micro Asia Science and Technology Park, Inc. as it is variable interest entity and the Company is the primary beneficiary. The noncontrolling interest is presented as a separate component from the Company's equity in the equity section of the Consolidated Balance Sheets. Net income attributable to the noncontrolling interest is not presented separately in the Consolidated Statements of Operations and is included in the general and administrative expenses as the amount is not material for any of the fiscal periods presented.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Such estimates include, but are not limited to: allowances for doubtful accounts and sales returns, inventory valuation, product warranty accruals, stock-based compensation, impairment of long-term investments and income taxes. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The Company accounts for certain assets and liabilities at fair value. Accounts receivable and accounts payable are carried at cost, which approximates fair value due to the short maturity of these instruments. Cash equivalents and long-term investments are carried at fair value. Short-term and long-term debt is carried at amortized cost, which approximates its fair value based on borrowing rates currently available to the Company for loans with similar terms. The hierarchy below lists three levels of fair value based on the extent to which inputs used in measuring fair value are observable in the market. The Company categorizes each of its fair value measurements in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 - Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly; and
-

Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

#### Cash and Cash Equivalents

The Company considers all highly liquid instruments with an original maturity of three months or less from the date of purchase to be cash equivalents. Cash equivalents consist primarily of money market funds and certificates of deposits with maturities of less than three months.

49

---

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## Long-term Investments

The Company classifies its long-term investments in auction-rate securities ("auction rate securities") as long-term available-for-sale investments. Auction rate securities consist of municipal securities. The discounted cash flow model is used to estimate the fair value of the auction rate securities. These investments are recorded in the Consolidated Balance Sheets at fair value. Unrealized gains and losses on these investments are included as a component of accumulated other comprehensive income, net of tax.

## Inventory

Inventory is valued at the lower of cost or market. Inventory consists of raw materials (principally components), work in process (principally products being assembled) and finished goods. Market value represents net realizable value for finished goods and work in process and replacement value of raw materials and parts. The Company evaluates inventory on a quarterly basis for lower of cost or market and excess and obsolescence and, as necessary, writes down the valuation of units based upon the usage and sales, anticipated sales price, product obsolescence and other factors. If actual future demand for the Company's products is less than currently forecasted, additional inventory adjustments may be required. Once a reserve is established, it is maintained until the product to which it relates is sold or scrapped. If a unit that has been written down is subsequently sold, the cost associated with the revenue from this unit is reduced to the extent of the write down, resulting in an increase in gross profit. The Company monitors the extent to which previously written down inventory is sold at amounts greater or less than carrying value, and based on this analysis, adjusts its estimate for determining future write downs. If in future periods, the Company experiences or anticipates a change in recovery rate compared with its historical experience, its gross margin would be affected. During fiscal years 2016, 2015 and 2014, the Company recorded a provision for lower of cost or market and excess and obsolete inventory totaling \$9,313,000, \$5,928,000 and \$2,254,000, respectively.

## Property, Plant and Equipment

Property, plant and equipment is recorded at cost and depreciated using the straight-line method over the estimated useful lives of the related assets as follows:

Machinery and equipment	3 to 7 years
Furniture and fixtures	5 years
Software	3 to 5 years
Buildings	39 years
Building improvements	20 years
Land improvements	15 years
Leasehold improvements	shorter of lease term or estimated useful life

For assets acquired and financed under capital leases, the present value of the future minimum lease payments is recorded at the date of acquisition as property and equipment with the corresponding amount recorded as a capital lease obligation, and the amortization is computed on a straight-line basis over the shorter of lease term or estimated useful life.

## Other Assets

Edgar Filing: Super Micro Computer, Inc. - Form 10-K

As of June 30, 2016, other assets consist primarily of a long-term deferred service costs of \$3,498,000, restricted cash of \$1,851,000, investments in privately held companies of \$1,411,000, deposits of \$910,000 and a long-term prepaid royalty license of \$748,000. As of June 30, 2016, restricted cash consists primarily of certificates of deposits pledged as security for one irrevocable letter of credit required in connection with a warehouse lease in Fremont, California, two deposits to an escrow account required by the Company's worker's compensation program, one deposit required for the Company's bonded warehouse set up in Taiwan, four deposits to bank guarantees for import duty required by the customs authority in Taiwan and bank guarantees in connection with office leases in the Netherlands.

As of June 30, 2015, other assets consist primarily of a long-term deferred service costs of \$1,490,000, investments in a privately held companies of \$1,411,000, a long-term prepaid royalty license of \$997,000 and restricted cash of \$840,000.

50

---

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Long-Lived Assets

The Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount, an impairment loss would be measured based on the fair value of the asset compared to the carrying amount. No impairment charge has been recorded in any of the periods presented.

Revenue Recognition

The Company recognizes revenue from sales of products when persuasive evidence of an arrangement exists, shipment has occurred and title has transferred, the sales price is fixed or determinable, collection of the resulting receivable is reasonably assured, and all significant obligations have been met. Generally this occurs at the time of shipment when risk of loss and title has passed to the customer if all other revenue recognition criteria have been met. The Company's standard arrangement with its customers includes a signed purchase order or contract, 30 to 60 days payment terms, Ex-works terms, except for a few customers who have free-on-board destination terms, for which revenue is recognized when the products arrive at the destination if all other revenue recognition criteria have been met. The Company also has a few customers who have acceptance provisions for which revenue is recognized when customers provide the necessary acceptance. The Company generally does not provide for non-warranty rights of return except for products which have "Out-of-box" failure, where customers could return these products for credit within 30 days of receiving the items. Certain distributors and OEMs are also permitted to return products in unopened boxes, limited to purchases over a specified period of time, generally within 60 to 90 days of the purchase, or to products in the distributor's or OEM's inventory at certain times (such as the termination of the agreement or product obsolescence). To estimate reserves for future sales returns, the Company regularly reviews its history of actual returns for each major product line. The Company also communicates regularly with our distributors to gather information about end customer satisfaction, and to determine the volume of inventory in the channel. Reserves for future returns are adjusted as necessary, based on returns experience, returns expectations and communication with distributors.

Probability of collection is assessed on a customer-by-customer basis. Customers are subjected to a credit review process that evaluates the customers' financial position and ability to pay. If it is determined from the outset of an arrangement that collection is not probable based upon the review process, the customers are required to pay cash in advance of shipment. The Company also makes estimates of the uncollectibility of accounts receivable, analyzing accounts receivable and historical bad debts, customer concentrations, customer-credit-worthiness, current economic trends and changes in customer payment terms to evaluate the adequacy of the allowance for doubtful accounts. On a quarterly basis, the Company evaluates aged items in the accounts receivable aging report and provides an allowance in an amount the Company deems adequate for doubtful accounts. Our provision for bad debt was \$1,278,000, \$326,000 and \$1,476,000 in fiscal years 2016, 2015 and 2014, respectively. If a major customer's creditworthiness deteriorates, if actual defaults are higher than the Company's historical experience, or if other circumstances arise, the Company's estimates of the recoverability of amounts due to the Company could be overstated, and additional allowances could be required, which could have an adverse impact on its reported operating expenses. The Company provides for price protection to certain distributors. The Company assesses the market competition and product technology obsolescence, and makes price adjustments based on its judgment. Upon each announcement of price reductions, the accrual for price protection is calculated based on the distributors' inventory on hand. Such reserves are recorded as a reduction to revenue at the time the Company reduces the product prices.

Multiple-element arrangements. The Company's multiple-element product offerings include server systems with embedded software and support, which are considered separate units of accounting.

The Company allocates revenue to each element in a multiple-element arrangement based upon their relative selling price. When applying the relative selling price method, the Company determines the selling price for each deliverable using vendor-specific objective evidence ("VSOE") of selling price, if it exists, or third-party evidence ("TPE") of selling price. If neither VSOE nor TPE of selling price exist for a deliverable, the Company uses its best estimate of selling price for that deliverable. Revenue allocated to each element is then recognized when all the revenue recognition criteria are met for each element.

The Company determines VSOE based on its normal pricing and discounting practices for the specific product or service when sold separately. In determining VSOE, the Company requires that a substantial majority of the selling prices for a product or service fall within a reasonably narrow pricing range.

51

---



Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In most instances, the Company is not able to establish VSOE for all deliverables in an arrangement with multiple elements. This may be due to the Company infrequently selling each element separately, not pricing products within a narrow range, or only having a limited sales history. When VSOE cannot be established, the Company attempts to establish the selling price for each element based on TPE. TPE is determined based on competitor prices for similar deliverables when sold separately. Generally, the Company's product solutions differ from that of its peers and contain a significant level of customization and differentiation such that the comparable pricing of products with similar functionality cannot be obtained. Furthermore, the Company is unable to reliably determine what similar competitor products' selling prices are on a stand-alone basis. Therefore, the Company is typically unable to determine TPE.

When the Company is unable to establish selling price using VSOE or TPE, the Company uses estimated selling price ("ESP") in its allocation of the arrangement consideration. The objective of ESP is to determine the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis. ESP is generally used for offerings that are not typically sold on a stand-alone basis or for new or highly customized offerings.

The Company determines ESP for a product by considering multiple factors including, but not limited to, geographies, customer types, internal costs, gross margin objectives and pricing practices. The determination of ESP is made through consultation with and approval by the Company's management.

The Company regularly reviews VSOE, TPE and ESP, as well as the establishment and updates of these estimates. There was no material impact on revenues during fiscal year 2016 nor does the Company expect a material impact in the near term from changes in VSOE, TPE or ESP.

Services revenue. Services revenue mainly consists of extended warranty and on-site services. Extended warranty and on-site services are offered as part of multiple-element arrangements. Revenue related to extended warranty and on-site services is deferred and recognized ratably over the contractual period. These service contracts are typically one to five years in length. Service revenue has been less than 10% of net sales for all periods presented and is not separately disclosed.

#### Cost of Sales

Cost of sales primarily consists of the costs of materials, contract manufacturing, in-bound shipping, personnel and related expenses including stock based compensation, equipment and facility expenses, warranty costs and provision for lower of cost or market and excess and obsolete inventory.

#### Product Warranties

The Company offers product warranties ranging from 15 to 39 months against any defective products. The Company accrues for estimated returns of defective products at the time revenue is recognized based on historical warranty experience and recent trends. The Company monitors warranty obligations and may make revisions to its warranty reserve if actual costs of product repair and replacement are significantly higher or lower than estimated. Accruals for anticipated future warranty costs are charged to cost of sales and included in accrued liabilities and other long-term liabilities. If in future periods the Company experiences or anticipates an increase or decrease in warranty claims as a result of new product introductions or changes in unit volumes compared with its historical experience, or if the cost of servicing warranty claims is greater or lesser than expected, the Company intends to adjust its estimates accordingly. The following table presents for the years ended June 30, 2016, 2015 and 2014, the reconciliation of the

Edgar Filing: Super Micro Computer, Inc. - Form 10-K

changes in accrued warranty costs which is included as a component of accrued liabilities (in thousands):

	Years Ended June 30,		
	2016	2015	2014
Balance, beginning of year	\$7,700	\$7,083	\$6,472
Provision for warranty	17,470	15,771	14,175
Costs charged to accrual	(17,245)	(14,950)	(13,950)
Change in estimated liability for pre-existing warranties	(2,109 )	(204 )	386
Balance, end of year	\$5,816	\$7,700	\$7,083

52

---

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Software Development Costs

Software development costs are included in research and development and are expensed as incurred. Software development costs are capitalized beginning when technological feasibility has been established and ending when a product is available for general release to customers. To date, the period between achieving technological feasibility and the issuance of such software has been short and software development costs qualifying for capitalization have been insignificant.

Research and Development

Research and development costs are expensed as incurred and consist primarily of salaries, consulting services, other direct expenses and other engineering expenses. The Company occasionally receives funding from certain suppliers and customers towards its development efforts. Such amounts are recorded as a reduction of research and development expenses and were \$6,904,000, \$6,318,000 and \$3,132,000 for the years ended June 30, 2016, 2015 and 2014, respectively.

Cooperative Marketing Arrangements

The Company has arrangements with resellers of its products to reimburse the resellers for cooperative marketing costs meeting specified criteria. The Company accrues the cooperative marketing costs based on these arrangements and its estimate for resellers' claims for marketing activities. The Company records marketing costs meeting such specified criteria within sales and marketing expenses in the consolidated statements of operations. For those marketing costs that do not meet the specified criteria, the amounts are recorded as a reduction to sales in the consolidated statements of operations.

Total cooperative marketing costs charged to sales and marketing expenses for the years ended June 30, 2016, 2015 and 2014, were \$2,506,000, \$1,995,000 and \$2,058,000, respectively. Total amounts recorded as reductions to sales for the years ended June 30, 2016, 2015 and 2014, were \$3,879,000, \$4,200,000 and \$2,829,000, respectively.

Advertising Costs

Advertising costs are expensed as incurred. Total advertising and promotional expenses, including cooperative marketing payments, were \$10,477,000, \$7,263,000 and \$5,183,000 for the years ended June 30, 2016, 2015 and 2014, respectively.

Stock-Based Compensation

The Company measures and recognizes compensation expense for all share-based awards made to employees and non-employee members of the Board of Directors, including employee stock options and restricted stock units. The Company is required to estimate the fair value of share-based awards on the date of grant. The value of awards that are ultimately expected to vest is recognized as an expense over the requisite service periods. The fair value of our restricted stock units is based on the closing market price of the Company's common stock on the date of grant. The Company estimated the fair value of stock options granted using a Black-Scholes option pricing model and a single option award approach. This model requires the Company to make estimates and assumptions with respect to the expected term of the option and the expected volatility of the price of the Company's common stock. The fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting

period.

The expected term represents the period that the Company's stock-based awards are expected to be outstanding and was determined based on a combination of the Company's peer group and historical experience. The expected volatility is based on a combination of the Company's implied and historical volatility. In addition, forfeitures of share-based awards are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting option and restricted stock unit forfeitures and record stock-based compensation expense only for those awards that are expected to vest.

#### Shipping and Handling Fees

The Company incurred shipping costs of \$2,535,000, \$2,090,000 and \$1,605,000 for the years ended June 30, 2016, 2015 and 2014, respectively, which were included in sales and marketing expenses.

53

---

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Income Taxes

The Company accounts for income taxes under an asset and liability approach. Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for income tax reporting purposes, net operating loss carry-forwards and other tax credits measured by applying currently enacted tax laws. Valuation allowances are provided when necessary to reduce deferred tax assets to an amount that is more likely than not to be realized.

The Company recognizes the tax liability for uncertain income tax positions on the income tax return based on the two-step process. The first step is to determine whether it is more likely than not that each income tax position would be sustained upon audit. The second step is to estimate and measure the tax benefit as the amount that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority. Estimating these amounts requires the Company to determine the probability of various possible outcomes. The Company evaluates these uncertain tax positions on a quarterly basis. This evaluation is based on the consideration of several factors, including changes in facts or circumstances, changes in applicable tax law, settlement of issues under audit and new exposures. If the Company later determines that its exposure is lower or that the liability is not sufficient to cover its revised expectations, the Company adjusts the liability and effects a related change in its tax provision during the period in which the Company makes such determination.

Foreign Currency Translation

The functional currency of the Company's international subsidiaries is the U.S. dollar. Monetary assets and liabilities of the Company's international subsidiaries that are denominated in the local currency are remeasured into U.S. dollars at period-end exchange rates. Non-monetary assets and liabilities that are denominated in the local currency are remeasured into U.S. dollars at the historical rates. Revenue and expenses that are denominated in the local currency are remeasured into U.S. dollars at the average exchange rates during the period. Accordingly, remeasurement of foreign currency accounts and foreign exchange transaction gains and losses, which have not been material, are reflected in the consolidated statements of operations.

Net Income Per Common Share

In fiscal years 2016 and 2015, basic net income per common share is computed by dividing net income by the weighted-average number of shares of common stock outstanding during the period. Diluted net income per common share is computed by dividing net income by the weighted-average number of shares of common stock outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include outstanding stock options and unvested restricted stock units.

In fiscal year 2014, the Company had restricted share awards outstanding which were subject to repurchase and settled in shares of common stock upon vesting. Such awards had the nonforfeitable right to receive dividends on an equal basis with common stock and therefore were considered participating securities that must be included in the calculation of net income per share using the two-class method. Under the two-class method, basic and diluted net income per common share was determined by calculating net income per share for common stock and participating securities based on participation rights in undistributed earnings. Diluted net income per common share was calculated by adjusting outstanding shares, assuming any dilutive effects of stock incentive awards calculated using the treasury

stock method.

Under the treasury stock method, an increase in the fair market value of the Company's common stock results in a greater dilutive effect from outstanding stock options and restricted stock units. Additionally, the exercise of employee stock options and the vesting of restricted stock units results in a further dilutive effect on net income per share.

54

---

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The computation of basic and diluted net income per common share is as follows (in thousands, except per share amounts):

	Years Ended June 30,		
	2016	2015	2014
Basic net income per common share calculation			
Net income	\$72,021	\$101,863	\$54,157
Less: Undistributed earnings allocated to participating securities	—	—	(36 )
Net income attributable to common shares—basic	\$72,021	\$101,863	\$54,121
Weighted-average number of common shares used to compute basic net income per common share	47,917	46,434	43,599
Basic net income per common share	\$1.50	\$2.19	\$1.24
Diluted net income per common share calculation			
Net income	\$72,021	\$101,863	\$54,157
Less: Undistributed earnings allocated to participating securities	—	—	(34 )
Net income attributable to common shares—diluted	\$72,021	\$101,863	\$54,123
Weighted-average number of common shares used to compute basic net income per common share	47,917	46,434	43,599
Dilutive effect of options and restricted stock units to purchase common stock	3,919	3,660	2,913
Weighted-average number of common shares used to compute diluted net income per common share	51,836	50,094	46,512
Diluted net income per common share	\$1.39	\$2.03	\$1.16

For the years ended June 30, 2016, 2015 and 2014, the Company had stock options and restricted stock units outstanding that could potentially dilute basic earnings per share in the future, but were excluded from the computation of diluted net income per share in the periods presented, as their effect would have been anti-dilutive. The anti-dilutive common share equivalents resulting from outstanding equity awards were 1,196,000, 3,805,000 and 3,465,000 for the years ended June 30, 2016, 2015 and 2014, respectively.

#### Certain Significant Risks and Uncertainties

The Company operates in the high technology industry and is subject to a number of risks, some of which are beyond the Company's control, that could have a material adverse effect on the Company's business, operating results, and financial condition. These risks include variability and uncertainty of revenues and operating results; product obsolescence; geographic concentration; international operations; dependence on key personnel; competition; intellectual property claims and litigation; management of growth; and limited sources of supply.

#### Concentration of Supplier Risk

Certain raw materials used by the Company in the manufacture of its products are available from a limited number of suppliers. Shortages could occur in these essential materials due to an interruption of supply or increased demand in the industry. One supplier accounted for 35.2%, 28.7%, and 23.4% of total purchases for the years ended June 30, 2016, 2015 and 2014, respectively. Ablecom, a related party of the Company as noted in Note 9, accounted for 11.5%, 12.6% and 16.1% of total purchases for the years ended June 30, 2016, 2015 and 2014, respectively.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentration of credit risk consist primarily of cash and cash equivalents and long-term investments and accounts receivable. In fiscal years 2016 and 2015, one customer accounted for 10.9% and 10.1%, respectively, of net sales. No single customer accounted for 10% or more of net sales in fiscal year 2014. No customer accounted for 10% or more of accounts receivable as of June 30, 2016 and 2015.

55

---



Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance related to revenue recognition. This new standard replaces all current U.S. GAAP guidance on revenue, eliminates all industry-specific guidance and provides a unified model in determining when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of 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. Further, in March 2016, the FASB issued an amendment to the accounting guidance related to revenue from contracts with customers - principal versus agent considerations. In April 2016, the FASB issued an amendment to the accounting guidance related to revenue from contracts with customers - identifying performance obligations and licensing. This guidance can be applied either retrospectively or as a cumulative-effect adjustment as of the date of adoption. Early adoption is permitted for annual periods beginning after December 15, 2016. The new standard is effective for the Company on July 1, 2018. The Company is currently evaluating the effect the guidance will have on the Company's financial statement disclosures, results of operations and financial position.

In April 2015, the FASB issued an amendment to the accounting guidance related to presentation of debt issuance costs. The amendment requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. In August 2015, the FASB issued an amendment to the accounting guidance related to presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. The amendment clarified that an entity may defer and present debt issuance costs associated with line-of-credit arrangements as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The amendment is effective for the Company on July 1, 2016. The Company is currently evaluating the effect the amendment to the guidance will have on the Company's financial statement disclosures, results of operations and financial position.

In July 2015, the FASB issued an amendment to the authoritative guidance related to inventory measurement. The amendment requires entities to measure inventory at the lower of cost and net realizable value thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. The amendment is effective for the Company on July 1, 2017. The Company is currently evaluating the effect the amendment to the guidance will have on the Company's financial statement disclosures, results of operations and financial position.

In November 2015, the FASB issued an amendment to the accounting guidance related to balance sheet classification of deferred taxes. The amendment requires that all deferred tax assets and liabilities be classified as noncurrent in a classified balance sheet. Early adoption is permitted as of the beginning of an interim or annual reporting period. The amendment is effective for the Company on July 1, 2017. The Company has adopted this guidance on a prospective basis for the fiscal year ended June 30, 2016. Adoption of this guidance resulted in a reclassification of our net current deferred tax asset of \$17,869,000 to the net non-current deferred tax asset in our Consolidated Balance Sheet as of June 30, 2016. No prior periods were retrospectively adjusted.

In February 2016, the FASB issued an amendment to the accounting guidance related to leases. The amendment will supersede the existing lease guidance, including on-balance sheet recognition of operating leases for lessees. This amendment should be applied using a modified retrospective approach and is effective for the Company on July 1, 2018. Early adoption is permitted. The Company is currently evaluating the effect the guidance will have on its financial statement disclosures, results of operations and financial position.

In March 2016, the FASB issued new accounting guidance on the accounting for certain aspects of share-based payment to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements as well as classification in the statement of cash flows. This guidance is effective for us on July 1, 2017. The Company is currently evaluating the effect the guidance will have on its financial statement disclosures, results of operations and financial position.

56

---

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## Note 2. Fair Value Disclosure

The financial assets of the Company measured at fair value on a recurring basis are included in cash equivalents and long-term investments. The Company's money market funds are classified within Level 1 of the fair value hierarchy as the determination of their fair values is based on quoted market prices for the identical underlying securities in active markets. The Company's long-term auction rate securities investments are classified within Level 3 of the fair value hierarchy as the determination of their fair values was not based on observable inputs as of June 30, 2016 and 2015. Refer to Note 1 for a discussion of the Company's policies regarding the fair value hierarchy. The Company has used a discounted cash flow model to estimate the fair value of the auction rate securities as of June 30, 2016 and 2015. The material factors used in preparing the discounted cash flow model are (i) the discount rate utilized to present value the cash flows, (ii) the time period until redemption and (iii) the estimated rate of return.

The following table sets forth the Company's cash equivalents and long-term investments as of June 30, 2016 and 2015 which are measured at fair value on a recurring basis by level within the fair value hierarchy. These are classified based on the lowest level of input that is significant to the fair value measurement (in thousands):

June 30, 2016	Level 1	Level 2	Level 3	Asset at Fair Value
Money market funds	\$ 315	\$ —	—\$—	\$ 315
Auction rate securities	—	—	2,643	2,643
Total assets measured at fair value	\$ 315	\$ —	—\$2,643	\$ 2,958

June 30, 2015	Level 1	Level 2	Level 3	Asset at Fair Value
Money market funds	\$ 310	\$ —	—\$—	\$ 310
Auction rate securities	—	—	2,633	2,633
Total assets measured at fair value	\$ 310	\$ —	—\$2,633	\$ 2,943

The above table excludes \$180,426,000 and \$94,901,000 of cash and \$2,133,000 and \$1,130,000 of certificates of deposit held by the Company as of June 30, 2016 and 2015, respectively. There were no transfers between Level 1, Level 2 or Level 3 securities in fiscal year 2016 and 2015.

The following table provides a reconciliation of the Company's financial assets measured at fair value on a recurring basis, consisting of long-term auction rate securities, using significant unobservable inputs (Level 3) for fiscal years 2016 and 2015 (in thousands):

	Years Ended June 30,	
	2016	2015
Balance as of beginning of year	\$2,633	\$2,647
Total realized gains or (losses) included in net income	—	—
Total unrealized gains or (losses) included in other comprehensive income	10	(14 )
Sales and settlements at par	—	—
Transfers in and/or out of Level 3	—	—
Balance as of end of year	\$2,643	\$2,633



Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following is a summary of the Company's long-term investments as of June 30, 2016 and 2015 (in thousands):

June 30, 2016			
Amortized Cost	Gross Holding Gains	Gross Unrealized Holding Losses	Fair Value
Auction rate securities	\$ 2,750	—\$ (107 )	\$ 2,643

June 30, 2015			
Amortized Cost	Gross Holding Gains	Gross Unrealized Holding Losses	Fair Value
Auction rate securities	\$ 2,750	—\$ (117 )	\$ 2,633

The Company measures the fair value of outstanding debt for disclosure purposes on a recurring basis. As of June 30, 2016 and 2015, short-term and long-term debt of \$93,589,000 and \$94,412,000, respectively, are reported at amortized cost. This outstanding debt is classified as Level 2 as it is not actively traded and is valued using a discounted cash flow model that uses observable market inputs. Based on the discounted cash flow model, the fair value of the outstanding debt approximates amortized cost.

### Note 3. Accounts Receivable Allowances

The Company has established an allowance for doubtful accounts and an allowance for sales returns. The allowance for doubtful accounts is based upon the credit risk of specific customers, historical trends related to past losses and other relevant factors. The Company also provides its customers with product return rights. A provision for such returns is provided for in the same period that the related sales are recorded based upon contractual return rights and historical trends. Accounts receivable allowances as of June 30, 2016, 2015 and 2014, consisted of the following (in thousands):

	Beginning Balance	Charged to Cost and Expenses	Deductions	Ending Balance
Allowance for doubtful accounts:				
Year ended June 30, 2016	\$ 1,198	\$ 1,278	\$(135 )	\$ 2,341
Year ended June 30, 2015	1,474	326	(602 )	1,198
Year ended June 30, 2014	1,562	1,476	(1,564 )	1,474
Allowance for sales returns				
Year ended June 30, 2016	\$ 430	\$ 10,877	\$(10,927 )	\$ 380
Year ended June 30, 2015	448	9,383	(9,401 )	430
Year ended June 30, 2014	404	8,985	(8,941 )	448



Table of Contents

## Note 4. Inventory

Inventory as of June 30, 2016 and 2015 consisted of the following (in thousands):

	June 30,	
	2016	2015
Finished goods	\$351,209	\$384,647
Work in process	19,105	23,214
Purchased parts and raw materials	78,666	55,632
Total inventory	\$448,980	\$463,493

## Note 5. Property, Plant, and Equipment

Property, plant and equipment as of June 30, 2016 and 2015 consisted of the following (in thousands):

	June 30,	
	2016	2015
Land (1)	\$70,454	\$63,962
Buildings (1)	71,665	51,959
Building and leasehold improvements (1)	10,941	8,323
Buildings construction in progress (1)	15,803	25,572
Machinery and equipment	53,282	40,689
Furniture and fixtures	10,364	7,421
Purchased software (2)	13,920	3,343
Purchased software construction in progress (2)	532	8,567
	246,961	209,836
Accumulated depreciation and amortization	(59,012 )	(46,798 )
Property, plant and equipment, net	\$187,949	\$163,038

(1) In connection with the purchase of property located in San Jose, California for the Company's Green Computing Park, the Company continues to engage several contractors for the development and construction of improvements on the property. The first manufacturing building at this location was completed in August 2015. In fiscal year 2016, the Company also engaged a contractor for the construction of improvements on leasehold property located in the Netherlands, which was completed in October 2015.

(2) The Company completed its implementation of a new enterprise resource planning, or ERP, system for its United States headquarters on July 5, 2015 and for its subsidiaries in Taiwan and the Netherlands in January 2016. The Company has capitalized the costs of the new ERP software and certain expenses associated directly with the implementation of the ERP system and began to depreciate these costs in fiscal year 2016.

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## Note 6. Accrued Liabilities

Accrued liabilities as of June 30, 2016 and 2015 consisted of the following (in thousands):

	June 30,	
	2016	2015
Accrued payroll and related expenses	\$16,015	\$15,141
Customer deposits	6,265	6,314
Accrued warranty costs	5,816	7,700
Accrued cooperative marketing expenses	7,300	5,690
Deferred revenue (1)	13,418	4,989
Others	6,804	6,909
Total accrued liabilities	\$55,618	\$46,743

(1) As of June 30, 2016 and 2015, deferred revenue consist primarily of a deferred extended warranty and on-site service revenue of \$12,746,000 and \$4,085,000, respectively.

## Note 7. Short-term and Long-term Obligations

Short-term and long-term obligations as of June 30, 2016 and 2015 consisted of the following (in thousands):

	June 30,	
	2016	2015
Line of credit:		
Bank of America (1)	\$62,199	\$59,699
CTBC Bank	10,100	9,700
Total lines of credit	72,299	69,399
Term loans:		
Bank of America	933	3,733
CTBC Bank	20,357	21,280
Total term loans	21,290	25,013
Total debt	93,589	94,412
Current portion	(53,589 )	(93,479 )
Long-term portion	\$40,000	\$933

(1) In July 2016, \$50,000,000 of the revolving line of credit was refinanced to a five-year term loan under the new credit agreement with Bank of America and was reclassified to long-term loan as of June 30, 2016.

## Activities under Revolving Lines of Credit and Term Loans

## Bank of America

In June 2015, the Company entered into an amendment to the existing credit agreement with Bank of America N.A. ("Bank of America") which provided for (i) a \$65,000,000 revolving line of credit facility that would have matured on November 15, 2015 and (ii) a five-year \$14,000,000 term loan facility. The term loan is secured by three buildings



located in San Jose, California and the principal and interest are payable monthly through September 30, 2016 with an interest rate at the LIBOR rate plus 1.50% per annum. The Company extended the revolving line of credit to mature on June 30, 2016.

60

---

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In June 2016, the Company entered into a new credit agreement with Bank of America, which provided for (i) a \$55,000,000 revolving line of credit facility including a \$5,000,000 letter of credit sublimit that matures on June 30, 2017 and (ii) a five-year \$50,000,000 term loan facility. This revolving line of credit facility replaced the existing revolving line of credit facility with Bank of America. This additional term loan is secured by seven buildings located in San Jose, California and the property, plant and equipment and the inventory in those buildings. The principal and interest of the term loan are payable monthly through June 30, 2021 with an interest rate at the LIBOR rate plus 1.25% per annum.

The interest rate for the revolving line of credit under the above credit agreements with Bank of America is at the LIBOR rate plus 1.25% per annum. The LIBOR rate was 0.46% at June 30, 2016. The letter of credit is charged at 1.25% per annum. In July 2016, the Company received \$50,000,000 term loan proceeds from Bank of America under the new credit agreement with an interest rate at 1.71% per annum and paid down the outstanding amounts under the revolving line of credit with Bank of America.

In June 2016, the Company also entered into a separate credit agreement with Bank of America, which provided for a revolving line of credit of \$10.0 million for the Taiwan subsidiary that matures on June 30, 2017. The interest rate of the revolving line of credit is equal to a minimum of 0.9% per annum plus the lender's cost of fund.

As of June 30, 2016 and 2015, the total outstanding borrowings under the Bank of America term loan was \$933,000 and \$3,733,000, respectively. The total outstanding borrowings under the Bank of America lines of credit was \$62,199,000 and \$59,699,000 as of June 30, 2016 and 2015, respectively. The interest rates for these loans ranged from 1.02% to 1.96% per annum at June 30, 2016 and from 0.79% to 1.68% per annum at June 30, 2015, respectively. As of June 30, 2016, the unused revolving lines of credit and term loan amount with Bank of America under the new credit agreements were \$2,801,000 and \$50,000,000, respectively.

**CTBC Bank**

In November 2015, the Company entered into an amendment to the existing credit agreement with CTBC Bank Co., Ltd ("CTBC Bank") that provides for (i) a 12-month NTD\$700,000,000 or \$22,017,000 U.S. dollar equivalent term loan secured by the land and building located in Bade, Taiwan with an interest rate equal to the lender's established NTD interest rate plus 0.25% per annum which is adjusted monthly and (ii) a 12-month revolving line of credit up to 80.0% of eligible accounts receivable in an aggregate amount of up to \$17,000,000 with an interest rate equal to the lender's established USD interest rate plus 0.30% per annum which is adjusted monthly. The total borrowings allowed under the credit agreement are capped at NTD\$1,000,000,000 or \$30,340,000 U.S. dollar equivalent. In January 2016, the Company extended the revolving line of credit to mature on March 31, 2016.

In April 2016, the Company entered into a credit agreement with CTBC Bank Co., Ltd that provides for (i) a 12-month NTD\$700,000,000 or \$21,620,000 U.S. dollar equivalent term loan facility secured by the land and building located in Bade, Taiwan with an interest rate equal to the lender's established NTD interest rate plus 0.25% per annum which is adjusted monthly. This term loan facility also includes a 12-month customs bond up to NTD\$100,000,000 or \$3,089,000 U.S. dollar equivalent with an annual fee equal to 0.5% per annum, and (ii) a 12-month revolving line of credit up to 80.0% of eligible accounts receivable in an aggregate amount of up to \$40,000,000 with an interest rate equal to the lender's established USD interest rate plus 0.30% per annum which is adjusted monthly. The total borrowings allowed under the credit agreement are capped at \$40,000,000. The credit agreement matures on March 31, 2017.

The total outstanding borrowings under the CTBC Bank term loan was denominated in Taiwanese dollars and was translated into U.S. dollars of \$20,357,000 and \$21,280,000 at June 30, 2016 and 2015, respectively. At June 30, 2016 and 2015, the total outstanding borrowings under the CTBC Bank revolving line of credit was \$10,100,000 and \$9,700,000, respectively, in U.S. dollars. The interest rate for these loans ranged from 0.90% and 1.25% at June 30, 2016 and 0.82% and 1.16% per annum at June 30, 2015. At June 30, 2016, available for future borrowing under this credit agreement was \$9,543,000.

#### Covenant Compliance

The new credit agreement with Bank of America contain customary representations and warranties and customary affirmative and negative covenants applicable to the Company and its subsidiaries. The new credit agreement contain certain financial covenants, including the following:

61

---

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Not to incur on a consolidated basis, a net loss before taxes and extraordinary items for any two consecutive fiscal quarters;

The Consolidated Leverage Ratio, as defined in the agreement, as of the end of any fiscal quarter, measured for the most recently completed twelve (12) months of the Company, shall not be greater than 2.00;

The domestic unencumbered liquid assets, as defined in the agreement, maintained in accounts within the United States shall have an aggregate market value of not less than \$30,000,000, measured quarterly as of the last day of each fiscal quarter.

As of June 30, 2016, total assets of \$934,625,000 collateralized the line of credit with Bank of America under the new credit agreement, which represent the total assets of the United States headquarter company, except for seven buildings located in San Jose, California and property, plant and equipment and inventory in those buildings. As of June 30, 2016, total assets collateralizing the term loan with Bank of America under the new credit agreement were \$59,258,000. As of June 30, 2015, the total assets of \$1,045,408,000 collateralized the line of credits with Bank of America which represents all the assets of the Company except for three buildings purchased in San Jose, California in June 2010 and the land and building located in Bade, Taiwan. As of June 30, 2015, total assets collateralizing the term loan with Bank of America was \$17,354,000. As of June 30, 2016, the Company was in compliance with all financial covenants associated with the credit agreements with Bank of America.

As of June 30, 2016 and 2015, the land and building located in Bade, Taiwan with a value of \$26,804,000 and \$27,047,000, respectively, collateralized the term loan with CTBC Bank. There are no financial covenants associated with the term loan with CTBC Bank at June 30, 2016.

## Debt Maturities

The following table as of June 30, 2016, summarizes future minimum principal payments on the Company's debts excluding capital leases (in thousands):

Fiscal Years Ending June 30,	
2017	\$53,589
2018	10,000
2019	10,000
2020	10,000
2021	10,000
Thereafter	—
Total	\$93,589

In July 2016, the Company received \$50,000,000 term loan proceeds from Bank of America and paid down the outstanding amounts under the revolving line of credit with Bank of America. The above table presents the future minimum principal payments on the Company's debts based on the latest credit agreements with Bank of America and CTBC Bank as of June 30, 2016.

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## Note 8. Other Long-term Liabilities

Other long-term liabilities as of June 30, 2016 and 2015 consisted of the following (in thousands):

	June 30,	
	2016	2015
Deferred revenue-net of current portion (1)	\$21,940	\$4,276
Accrued unrecognized tax benefits including related interests and penalties-net of current portion	16,056	10,184
Accrued warranty costs-net of current portion	1,313	—
Others	1,294	1,224
Total other long-term liabilities	\$40,603	\$15,684

(1) As of June 30, 2016 and 2015, deferred revenue-net of current portion consist primarily of a deferred extended warranty and on-site service revenue of \$21,265,000 and \$4,276,000, respectively.

## Note 9. Related-party and Other Transactions

Ablecom Technology Inc.—Ablecom, a Taiwan corporation, together with one of its subsidiaries, Compuware (collectively “Ablecom”), is one of the Company’s major contract manufacturers. Ablecom’s ownership of Compuware is below 50% but Compuware remains a related party as Ablecom still has significant influence over its operations. Ablecom’s chief executive officer, Steve Liang, is the brother of Charles Liang, the Company’s President, Chief Executive Officer and Chairman of the Board of Directors. Ablecom owns approximately 0.3% of the Company’s common stock. Charles Liang and his wife, also an officer of the Company, collectively own approximately 10.5% of Ablecom, while Steve Liang and other family members own approximately 36.0% of Ablecom at June 30, 2016.

The Company has product design and manufacturing services agreements (“product design and manufacturing agreements”) and a distribution agreement (“distribution agreement”) with Ablecom.

Under the product design and manufacturing agreements, the Company outsources a portion of its design activities and a significant part of its manufacturing of components such as server chassis to Ablecom. Ablecom agrees to design products according to the Company’s specifications. Additionally, Ablecom agrees to build the tools needed to manufacture the products. The Company has agreed to pay for Ablecom’s cost of chassis and related product tooling and engineering services and will pay for those items when the work has been completed.

Under the distribution agreement, Ablecom purchases server products from the Company for distribution in Taiwan. The Company believes that the pricing and terms under the distribution agreement are similar to the pricing and terms of distribution arrangements the Company has with similar, third party distributors.

Ablecom’s net sales to the Company and its net sales of the Company’s products to others comprise a substantial majority of Ablecom’s net sales. For the years ended June 30, 2016, 2015 and 2014, the Company purchased products from Ablecom totaling \$241,836,000, \$227,562,000 and \$201,848,000, respectively. For the years ended June 30, 2016, 2015 and 2014, the Company sold products to Ablecom totaling \$19,453,000, \$58,013,000 and \$14,576,000, respectively.

Amounts owed to the Company by Ablecom as of June 30, 2016 and 2015, were \$4,678,000 and \$13,186,000, respectively. Amounts owed to Ablecom by the Company as of June 30, 2016 and 2015, were \$39,152,000 and \$59,015,000, respectively. In fiscal year 2016, the Company paid Ablecom the majority of invoiced dollars between 48 and 90 days of invoice date. For the years ended June 30, 2016, 2015 and 2014, the Company paid \$9,085,000, \$5,851,000 and \$6,906,000, respectively, for tooling assets and miscellaneous costs to Ablecom.

The Company's exposure to loss as a result of its involvement with Ablecom is limited to (a) potential losses on its purchase orders in the event of an unforeseen decline in the market price and/or demand of the Company's products such that the Company incurs a loss on the sale or cannot sell the products and (b) potential losses on outstanding accounts receivable from Ablecom in the event of an unforeseen deterioration in the financial condition of Ablecom such that Ablecom defaults on its payable to the Company. Outstanding purchase orders with Ablecom were \$62,782,000 and \$67,261,000 at June 30, 2016

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

and 2015, respectively, representing the maximum exposure to loss relating to (a) above. The Company does not have any direct or indirect guarantees of losses of Ablecom.

In May 2012, the Company and Ablecom jointly established Super Micro Asia Science and Technology Park, Inc. ("Management Company") in Taiwan to manage the common areas shared by the Company and Ablecom for their separately constructed manufacturing facilities. Each company contributed \$168,000 and owns 50% of the Management Company. Although the operations of the Management Company are independent of the Company, through governance rights, the Company has the ability to direct the Management Company's business strategies. Therefore, the Company has concluded that the Management Company is a variable interest entity of the Company as the Company is the primary beneficiary of the Management Company. The accounts of the Management Company are consolidated with the accounts of the Company, and a noncontrolling interest has been recorded for the Ablecom's interests in the net assets and operations of the Management Company. The Management Company had no business operations as of June 30, 2012. For the years ended June 30, 2016, 2015 and 2014, \$20,000, \$(11,000) and \$(6,000) of net income (loss) attributable to Ablecom's interest was included in the Company's general and administrative expenses in the consolidated statements of operations.

Note 10. Stock-based Compensation and Stockholders' Equity

Share Repurchase Program

In July 2016, the Company's Board of Directors adopted a program to repurchase from time to time at management's discretion up to \$100,000,000 of the Company's common stock in the open market or in private transactions during the next twelve months at prevailing market prices. Repurchases will be made under the program using the Company's own cash resources. This share repurchase program does not obligate the Company to acquire any particular amount of common stock, and it may be suspended at any time at the Company's discretion. In July 2016, the Company purchased 513,194 shares of the Company's common stock in the open market at a weighted average price of \$19.97 for \$10,259,000.

Equity Incentive Plan

In January 2016, the Board of Directors approved the 2016 Equity Incentive Plan (the "2016 Plan") and reserved for issuance 4,700,000 shares of common stock for awards of stock options, stock appreciation rights, restricted stock, restricted stock units and other equity-based awards. The 2016 Plan was approved by the stockholders of the Company and became effective on March 8, 2016. As of such date, 8,696,444 shares of common stock were reserved for outstanding awards under the Company's 2006 Equity Incentive Plan (the "2006" Plan). Such awards remained outstanding under the 2006 Plan following the adoption of the 2016 Plan, although no further awards will be granted under the 2006 Plan. Up to 2,800,000 shares subject to awards that remained outstanding under the 2006 Plan but that are forfeited in the future will become available for use under the 2016 Plan. In addition, 1,153,412 shares of common stock originally reserved for issuance under the 2006 Plan were cancelled upon the adoption of the 2016 Plan. Under the 2016 Plan, the exercise price per share for incentive stock options granted to employees owning shares representing more than 10% of the Company at the time of grant cannot be less than 110% of the fair value of the underlying share on grant date. Nonqualified stock options and incentive stock options granted to all other persons shall be granted at a price not less than 100% of the fair value. Options generally expire ten years after the date of grant. Stock options and restricted stock units generally vest over four years; 25% at the end of one year and one sixteenth per quarter thereafter. As of June 30, 2016, the Company had 4,294,003 authorized shares available for future issuance under the 2016 Plan.

#### Determining Fair Value

The Company's fair value of restricted stock units is based on the closing market price of the Company's common stock on the date of grant. The Company estimates the fair value of stock options granted using the Black-Scholes-option-pricing formula and a single option award approach. This fair value is then amortized ratably over the requisite service periods of the awards, which is generally the vesting period.

**Expected Term**—The Company's expected term represents the period that the Company's stock-based awards are expected to be outstanding and was determined based on a combination of the Company's peer group and the Company's historical experience.

**Expected Volatility**—Expected volatility is based on a combination of the Company's implied and historical volatility.



Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Expected Dividend—The Black-Scholes valuation model calls for a single expected dividend yield as an input and the Company has no plans to pay dividends.

Risk-Free Interest Rate—The risk-free interest rate used in the Black-Scholes valuation method is based on the United States Treasury zero coupon issues in effect at the time of grant for periods corresponding with the expected term of option.

Estimated Forfeitures—The estimated forfeiture rate is based on the Company's historical forfeiture rates and the estimate is revised in subsequent periods if actual forfeitures differ from the estimate.

The fair value of stock option grants for the years ended June 30, 2016, 2015 and 2014 was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Years Ended June 30,					
	2016		2015		2014	
Risk-free interest rate	1.37%	-	1.35%	-	1.53%	-
	1.57%	-	1.76%	-	1.90%	-
Expected life	5.31 -	5.33	5.40 -	5.44	5.49 -	5.58
	years	years	years	years	years	years
Dividend yield	—	%	—	%	—	%
	46.65%		46.93%		43.48%	
Volatility	-		-		-	
	50.89%		49.31%		50.07%	
Weighted-average fair value	\$12.07		\$12.72		\$7.23	

The following table shows total stock-based compensation expense included in the consolidated statements of operations for the years ended June 30, 2016, 2015 and 2014 (in thousands):

	Years Ended June 30,		
	2016	2015	2014
Cost of sales	\$1,098	\$901	\$941
Research and development	10,178	8,643	6,783
Sales and marketing	1,841	1,553	1,260
General and administrative	3,014	2,602	2,078
Stock-based compensation expense before taxes	16,131	13,699	11,062
Income tax impact	(4,503 )	(3,791 )	(2,426 )
Stock-based compensation expense, net	\$11,628	\$9,908	\$8,636

The cash flows resulting from the tax benefits for tax deductions resulting from the exercise of stock options and vesting of restricted stock units in excess of the compensation expense recorded for those options (excess tax benefits) issued or modified since July 1, 2006 are classified as cash from financing activities. Excess tax benefits for stock options issued prior to July 1, 2006 are classified as cash from operating activities. The Company had \$3,727,000, \$11,157,000 and \$7,041,000 of excess tax benefits recorded in additional paid-in capital in the years ended June 30, 2016, 2015 and 2014, respectively. The Company had excess tax benefits classified as cash from financing activities

of \$2,855,000, \$8,089,000 and \$2,992,000 in the years ended June 30, 2016, 2015 and 2014, respectively, for options issued since July 1, 2006.

As of June 30, 2016, the Company's total unrecognized compensation cost related to non-vested stock-based awards granted to employees and non-employee directors was \$37,533,000, which will be recognized over a weighted-average vesting period of approximately 2.29 years.

65

---

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## Stock Option Activity

The following table summarizes stock option activity during the years ended June 30, 2016, 2015 and 2014 under all plans:

	Options Outstanding	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value (in thousands)
Balance as of June 30, 2013 (8,731,818 shares exercisable at weighted average exercise price of \$9.66 per share)	12,206,178	\$ 10.83		
Granted (weighted average fair value of \$7.23)	1,808,006	15.87		
Exercised	(2,863,878 )	8.36		
Forfeited	(244,704 )	14.25		
Balance as of June 30, 2014 (7,558,631 shares exercisable at weighted average exercise price of \$11.05 per share)	10,905,602	12.24		
Granted (weighted average fair value of \$12.72)	1,093,920	28.28		
Exercised	(2,124,401 )	10.99		
Forfeited	(172,278 )	18.68		
Balance as of June 30, 2015 (7,208,475 shares exercisable at weighted average exercise price of \$12.24 per share)	9,702,843	14.21		
Granted (weighted average fair value of \$12.07)	316,580	26.86		
Exercised	(1,013,430 )	12.03		
Forfeited	(45,126 )	19.45		
Balance as of June 30, 2016	8,960,867	\$ 14.88	5.20	\$ 93,661
Options vested and expected to vest at June 30, 2016	8,887,498	\$ 14.79	5.18	\$ 93,566
Options vested and exercisable at June 30, 2016	7,495,131	\$ 13.35	4.63	\$ 87,796

The total pretax intrinsic value of options exercised during the years ended June 30, 2016, 2015 and 2014 was \$18,016,000, \$48,077,000 and \$30,165,000, respectively.

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Additional information regarding options outstanding as of June 30, 2016, is as follows:

Range of Exercise Prices	Options Outstanding			Options Vested and Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Term (Years)	Weighted-Average Exercise Price Per Share	Number Exercisable	Weighted-Average Exercise Price Per Share
\$4.63 - 7.91	933,694	2.41	\$ 6.29	933,694	\$ 6.29
7.94 - 9.24	924,705	3.29	8.61	908,080	8.60
9.72 - 10.66	1,309,468	3.69	10.39	1,245,451	10.41
10.68 - 12.50	907,879	5.36	11.78	846,813	11.79
12.68 - 14.23	1,307,560	5.20	13.76	1,138,326	13.69
15.22 - 17.29	923,677	5.51	16.32	923,677	16.32
17.69 - 18.93	1,134,968	6.36	18.56	829,328	18.57
20.70 - 26.75	1,125,706	8.01	24.83	562,044	24.04
27.28 - 37.06	357,710	8.99	32.80	84,593	35.09
39.19	35,500	8.62	39.19	23,125	39.19
\$4.63 - \$39.19	8,960,867	5.20	\$ 14.88	7,495,131	\$ 13.35

## Restricted Stock Unit Activity

In January 2015, the Company began to grant restricted stock units to employees. The Company grants restricted stock units to certain employees as part of its regular employee equity compensation review program as well as to selected new hires. Restricted stock units are share awards that entitle the holder to receive freely tradable shares of the Company's common stock upon vesting.

The following table summarizes restricted stock unit activity during the years ended June 30, 2016 and 2015 under all plans:

	Restricted Stock Units Outstanding	Weighted Average Grant-Date Fair Value per Share	Aggregate Intrinsic Value (in thousands)
Balance as of June 30, 2014	—	\$ —	
Granted	374,720	\$ 35.82	
Vested	(14,685)	) \$ 35.23	
Forfeited	(56,711)	) \$ 34.90	
Balance as of June 30, 2015	303,324	\$ 36.02	
Granted	845,870	\$ 28.45	
Vested	(177,707)	) \$ 31.80	
Forfeited	(44,504)	) \$ 29.72	
Balance as of June 30, 2016	926,983	\$ 30.23	\$ 23,036

The total pretax intrinsic value of restricted stock units vested was \$4,872,743 and \$486,000 for the years ended June 30, 2016 and 2015, respectively. In fiscal years 2016 and 2015, upon vesting, 177,707 and 14,685 shares of restricted stock units were partially net share-settled such that the Company withheld 65,164 and 5,278 shares, respectively, with value equivalent to the employees' minimum statutory obligation for the applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities. The total shares withheld were based on the value of the restricted stock units on their respective vesting dates as determined by the Company's closing stock price. Total payments for the employees' tax

67

---

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

obligations to taxing authorities were \$1,786,000 and \$175,000 for the years ended June 30, 2016 and 2015, respectively, and are reflected as a financing activity within the consolidated statements of cash flows. These net-share settlements had the effect of share repurchases by the Company as they reduced and retired the number of shares that would have otherwise been issued as a result of the vesting and did not represent an expense to the Company. Pursuant to the terms of the 2016 Plan, shares withheld in connection with net-share settlements are returned to the 2016 Plan and are available for future grants under the 2016 Plan.

## Restricted Stock Awards

Restricted stock awards are share awards that provide the rights to a set number of shares of the Company's stock on the grant date. In August 2008, the Compensation Committee of the Board of Directors of the Company (the "Committee") approved the terms of an agreement (the "Option Exercise Agreement") with Charles Liang, a director and President and Chief Executive Officer of the Company, pursuant to which Mr. Liang exercised a fully vested option previously granted to him for the purchase of 925,000 shares. The option was exercised using a "net-exercise" procedure in which he was issued a number of shares representing the spread between the option exercise price and the then current market value of the shares subject to the option (898,205 shares based upon the market value as of the date of exercise). The shares issued upon exercise of the option are subject to vesting over five years. Vesting of the shares subject to the award may accelerate in certain circumstances pursuant to the terms of the Option Exercise Agreement. The Company determined that there is no incremental fair value of the option exchanged for the awards. The awards were fully vested as of June 30, 2014.

## Restricted Stock Award Activity

The following table summarizes the Company's restricted stock award activity for the year ended June 30, 2014:

	Restricted Stock Awards	Weighted
	Number	Average
	of Shares	Grant Date
		Fair Value
		Per Share
Nonvested stock at June 30, 2013	179,641	\$ 10.66
Granted	3,500	14.23
Vested	(183,141 )	10.73
Forfeited	—	—
Nonvested stock at June 30, 2014	—	—

The Company had no restricted stock award activity for the years ended June 30, 2016 and 2015. The total pretax intrinsic value of restricted stock awards vested was \$1,965,000 for the year ended June 30, 2014. In fiscal year 2014, upon vesting, 183,141 shares of restricted stock awards were partially net share-settled such that the Company withheld 51,583 shares with value equivalent to the minimum statutory obligation for the applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities. The total shares withheld were based on the value of the restricted stock awards on their vesting date as determined by the Company's closing stock price. Total payments for an officer's tax obligations to the taxing authorities were \$681,000 for the year ended June 30, 2014, and are reflected as a financing activity within the consolidated statements of cash flows. These net-share settlements had the effect of share repurchases by the Company as they reduced and retired the number of shares that would have

otherwise been issued as a result of the vesting and did not represent an expense to the Company. There are no unvested restricted stock awards at June 30, 2016 and 2015.

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## Note 11. Income Taxes

The components of income before income tax provision for the years ended June 30, 2016, 2015 and 2014 are as follows (in thousands):

	Years Ended June 30,		
	2016	2015	2014
United States	\$94,335	\$118,083	\$66,152
Foreign	11,092	27,813	13,442
Income before income tax provision	\$105,427	\$145,896	\$79,594

The income tax provision for the years ended June 30, 2016, 2015 and 2014, consists of the following (in thousands):

	Years Ended June 30,		
	2016	2015	2014
Current:			
Federal	\$28,556	\$33,496	\$20,102
State	1,954	1,980	624
Foreign	10,843	10,960	5,252
	41,353	46,436	25,978
Deferred:			
Federal	(6,890 )	(1,989 )	122
State	(1,080 )	70	(472 )
Foreign	23	(484 )	(191 )
	(7,947 )	(2,403 )	(541 )
Income tax provision	\$33,406	\$44,033	\$25,437

The Company's net deferred tax assets as of June 30, 2016 and 2015 consist of the following (in thousands):

	June 30,	
	2016	2015
Warranty accrual	\$2,213	\$2,493
Marketing fund accrual	1,792	1,163
Inventory valuation	12,214	10,158
Stock-based compensation	5,186	4,800
Accrued vacation and bonus	2,544	1,230
Payable to foreign subsidiaries	1,824	1,716
Deferred revenue	3,221	425
Other	2,514	1,003
Total deferred income tax assets	31,508	22,988
Deferred tax liabilities-depreciation and other	(3,048 )	(628 )
Deferred income tax assets-net	\$28,460	\$22,360





Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The cumulative undistributed earnings of our foreign subsidiaries of \$42,515,000 at June 30, 2016 are considered to be indefinitely reinvested and accordingly, no provisions for federal and state income taxes have been provided thereon. The Company determined that the calculation of the amount of unrecognized deferred tax liability related to these cumulative unremitted earnings was not practicable. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to both United States income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to various foreign countries.

The following is a reconciliation for the years ended June 30, 2016, 2015 and 2014, of the statutory rate to the Company's effective federal tax rate:

	Years Ended June 30,		
	2016	2015	2014
Tax at statutory rate	35.0 %	35.0 %	35.0 %
State income tax, net of federal tax benefit	3.3	3.0	3.3
Foreign tax rate differences	0.6	(3.0)	(2.5)
Research and development tax credit	(7.2)	(3.4)	(4.0)
Qualified production activity deduction	(2.8)	(1.3)	(1.8)
Stock based compensation	2.3	2.2	4.5
Uncertain tax positions	(1.6)	(0.7)	(2.1)
Subpart F income inclusion	(2.9)	(2.9)	(3.9)
Foreign withholding tax	3.3	3.0	4.1
Federal tax return to provision adjustment	0.4	0.2	(0.7)
Other	1.3	(1.9)	0.1
Effective tax rate	31.7 %	30.2 %	32.0 %

As of June 30, 2016, the Company had state research and development tax credit carryforwards of \$9,898,000. The state research and development tax credits will carryforward indefinitely to offset future state income taxes. \$6,837,000 of the state research and development tax credit carryforwards were attributable to excess tax deductions from stock option exercises, and were not included in the deferred tax assets shown above. The benefit of these carryforwards will be credited to equity when realized.

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes the activity related to the unrecognized tax benefits (in thousands):

	Gross* Unrecognized Income Tax Benefits
Balance at June 30, 2013	\$ 8,089
Gross increases:	
For current year's tax positions	3,120
For prior years' tax positions	132
Gross decreases:	
Settlements and releases due to the lapse of statutes of limitations	(1,726 )
For prior year' tax positions	—
Balance at June 30, 2014	9,615
Gross increases:	
For current year's tax positions	3,855
For prior years' tax positions	793
Gross decreases:	
Settlements and releases due to the lapse of statutes of limitations	(971 )
For prior years' tax positions	—
Balance at June 30, 2015	13,292
Gross increases:	
For current year's tax positions	6,167
For prior years' tax positions	2,074
Gross decreases:	
Settlements and releases due to the lapse of statutes of limitations	(2,138 )
For prior years' tax positions	—
Balance at June 30, 2016	\$ 19,395

\*excludes interest, penalties, federal benefit of state reserves

The total amount of unrecognized tax benefits that would affect the effective tax rate, if recognized, is \$16,723,000 and \$10,971,000 as of June 30, 2016 and 2015, respectively.

The Company's policy is to include interest and penalties related to unrecognized tax benefits within the provision for taxes in the consolidated statements of operations. As of June 30, 2016 and 2015, the Company had accrued \$1,042,000 and \$898,000 for the payment of interest and penalties relating to unrecognized tax benefits, respectively. During fiscal years 2016, 2015 and 2014, there was no material change in the total amount of the liability for accrued interest and penalties related to the unrecognized tax benefits.

The Company is subject to United States federal income tax as well as income taxes in many state and foreign jurisdictions. The 2012 and 2013 federal tax returns are currently under the IRS examination. The Company has responded to Information Document Requests ("IDRs"), issued by the Internal Revenue Service ("IRS"). No adjustment has been proposed by the IRS as of June 30, 2016. The Company is also currently under audit in Taiwan. The Taiwan Tax Authority issued income tax assessments for tax years 2013 and 2014 related to the local income tax exemption regime which the Company has participated in. The Company is currently in the process of appeals. While

management believes that the Company has adequately provided reserves for all uncertain tax positions, amounts asserted by tax authorities could be greater or less than the Company's current position. Accordingly, the Company's provision on federal, state and foreign tax related matters to be recorded in the future may change as revised estimates are made or the underlying matters are settled or otherwise resolved.

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The federal statute of limitations remain open in general for tax years 2012 through 2015. The state statute of limitations remain open in general for tax years 2011 through 2015. The statute of limitations in major foreign jurisdictions remain open for examination in general for tax years 2009 through 2015. The Company does not expect its unrecognized tax benefits to change materially over the next 12 months.

## Note 12. Commitments and Contingencies

**Litigation and Claims**— The Company is involved in various legal proceedings arising from the normal course of business activities. The Company defends itself vigorously against any such claims. In management's opinion, the resolution of any matters will not have a material adverse effect on the Company's consolidated financial condition, results of operations or liquidity.

**Purchase Commitments**— The Company has agreements to purchase certain units of inventory and non-inventory items through fiscal year 2017. As of June 30, 2016, these remaining non-cancellable commitments were \$334,010,000 compared to \$378,341,000 as of June 30, 2015.

Included in the above non-cancellable commitments are hard disk drive purchase commitments totaling approximately \$110,505,000, which will be paid through December 2016. The Company entered into purchase agreements with selected suppliers of hard disk drives in order to ensure continuity of supply for these components. The agreements provide for some variation in the amount of units the Company is required to purchase and the suppliers may modify the purchase price for these components due to significant changes in market or component supply conditions. Product mix for these components may be negotiated quarterly and the purchase price for these components will be reviewed quarterly with the suppliers. The Company has been negotiating the purchase price with the suppliers on an ongoing basis based upon market rates.

**Lease Commitments**—The Company leases offices and equipment under noncancelable operating leases which expire at various dates through 2025. In addition, the Company leases certain of its equipment under capital leases. The future minimum lease commitments under all leases are as follows (in thousands):

Year ending:	Balance as of	
	Capital Leases	Operating Leases
June 30, 2017	\$261	\$ 4,271
June 30, 2018	234	3,924
June 30, 2019	195	3,698
June 30, 2020	94	3,737
June 30, 2021	38	1,662
Thereafter	—	2,631
Total minimum lease payments	822	\$ 19,923
Less: Amounts representing interest	71	
Present value of minimum lease payments	751	
Less: Long-term portion	524	
Current portion	\$227	

Rent expense for the years ended June 30, 2016, 2015 and 2014, was \$4,560,000, \$3,729,000 and \$3,477,000, respectively.



Table of Contents

## Note 13. Retirement Plans

The Company sponsors a 401(k) savings plan for eligible United States employees and their beneficiaries. Contributions by the Company are discretionary, and no contributions have been made by the Company for the years ended June 30, 2016, 2015 and 2014.

Beginning in March 2003, employees of Super Micro Computer, B.V. have the option to deduct a portion of their gross wages and invest the amount in a defined contribution plan. The Company has agreed to match 10% of the amount that is deducted monthly from employees' wages. Similar to contributions into a 401(k) plan, the Company's obligation is limited to the contributions made to the contribution plan. Investment risk and investment rewards are assumed by the employees and not by the Company. For the years ended June 30, 2016, 2015 and 2014, the Company's matching contribution was \$250,000, \$200,000 and \$198,000, respectively.

The Company maintains a defined benefit pension plan for Super Micro Computer, Taiwan that covers all eligible employees within Taiwan. Pension plan benefits are based primarily on participants' compensation and years of service credited as specified under the terms of Taiwan's plan. The funding policy is consistent with the local requirements of Taiwan. The Company's obligation is limited to the contributions made to the pension plan. Plan assets of the funded defined benefit pension plan are deposited into a government-managed account in which the Company has no control over investment strategy. For the years ended June 30, 2016, 2015 and 2014, the Company's contribution was \$1,003,000, \$862,000 and \$740,000, respectively.

## Note 14. Segment Reporting

The Company operates in one operating segment that develops and provides high performance server solutions based upon an innovative, modular and open-standard architecture. The Company's chief operating decision maker is the Chief Executive Officer.

International net sales are based on the country and region to which the products were shipped. The following is a summary for the years ended June 30, 2016, 2015 and 2014, of net sales by geographic region (in thousands):

	Years Ended June 30,		
	2016	2015	2014
Net sales:			
United States	\$ 1,398,405	\$ 1,160,651	\$ 809,250
Europe	385,819	378,323	316,760
Asia	324,208	326,912	299,403
Other	107,141	125,269	41,789
	\$ 2,215,573	\$ 1,991,155	\$ 1,467,202

The following is a summary of long-lived assets, excluding financial instruments, deferred tax assets, other assets, goodwill and intangible assets (in thousands):

	June 30,		
	2016	2015	2014
Long-lived assets:			
United States	\$ 142,764	\$ 124,292	\$ 94,119
Asia	42,052	37,695	36,123
Europe	3,133	1,051	347

\$187,949 \$163,038 \$130,589

73

---



Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following is a summary of net sales by product type (in thousands):

	Years Ended June 30,		2015		2014	
	2016		2015		2014	
	Amount	Percent of Net Sales	Amount	Percent of Net Sales	Amount	Percent of Net Sales
Server systems	\$1,525,570	68.9 %	\$1,213,608	60.9 %	\$740,789	50.5 %
Subsystems and accessories	690,003	31.1 %	777,547	39.1 %	726,413	49.5 %
Total	\$2,215,573	100.0 %	\$1,991,155	100.0 %	\$1,467,202	100.0 %

Subsystems and accessories are comprised of serverboards, chassis and accessories. Server systems constitute an assembly of subsystems and accessories done by the Company. In fiscal year 2016 and 2015, one customer represented 10.9% and 10.1% of the Company's total net sales, respectively, and no customer represented greater than 10% of the Company's total net sales for the year ended June 30, 2014. No country other than the United States represent greater than 10% of the Company's total net sales for any of the years ended June 30, 2016, 2015 and 2014. No customer accounted for 10% or more of the Company's accounts receivable as of June 30, 2016, 2015 and 2014.

## Note 15. Quarterly Financial Data (Unaudited)

The following table presents the Company's unaudited consolidated quarterly financial data. This information has been prepared on a basis consistent with that of the audited consolidated financial statements. The Company believes that all necessary adjustments, consisting of normal recurring accruals and adjustments, have been included to present fairly the quarterly financial data. The Company's quarterly results of operations for these periods are not necessarily indicative of future results of operations.

	Three Months Ended			
	Sep. 30, 2015	Dec. 31, 2015	Mar. 31, 2016	Jun. 30, 2016
	(In thousands, except per share data)			
Net sales	\$519,618	\$638,964	\$532,721	\$524,270
Gross profit	\$72,215	\$106,362	\$79,152	\$73,796
Net income	\$13,699	\$34,689	\$16,662	\$6,971
Net income per common share:				
Basic	\$0.29	\$0.73	\$0.35	\$0.14
Diluted	\$0.27	\$0.67	\$0.32	\$0.13

	Three Months Ended			
	Sep. 30, 2014	Dec. 31, 2014	Mar. 31, 2015	Jun. 30, 2015
	(In thousands, except per share data)			
Net sales	\$443,322	\$503,014	\$471,225	\$573,594
Gross profit	\$69,193	\$84,452	\$76,820	\$89,766
Net income	\$20,863	\$31,242	\$23,056	\$26,702
Net income per common share:				
Basic	\$0.46	\$0.68	\$0.49	\$0.56

Diluted	\$0.42	\$0.61	\$0.44	\$0.51
---------	--------	--------	--------	--------

74

---

Table of Contents

Note 16. Prior Period Adjustment Recorded in Current Period

In November 2015, the Company identified errors to revenue recognized in the consolidated financial statements for the fiscal years ended June 30, 2013, 2014 and 2015. The Company determined that certain contracts for extended warranties on products in multiple element arrangements were incorrectly recorded as revenue at the time of sale of the product instead of being deferred and amortized over the contractual warranty period. To quantify the amount of these errors, the Company determined a best estimated selling price for the extended warranty contracts based on amounts separately priced for these contracts on customer invoices. The cumulative impact of this prior period error as of June 30, 2015 was an overstatement of net sales and net income by \$9,259,000 and \$5,926,000, respectively for the three-year period then ended.

The Company assessed the materiality of these errors on the consolidated financial statements for each of the fiscal years ended June 30, 2013, 2014 and 2015, and concluded not to correct those financial statements because the errors were not material to any of these periods. The Company also concluded that recording an out-of-period correction to the consolidated financial statements for the fiscal year ended June 30, 2016 would not be material. Consequently, the out-of-period correction of these errors was recorded in the first quarter ended September 30, 2015 by reducing net sales by \$9,259,000 and net income by \$5,926,000, respectively.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Effectiveness of Disclosure Controls and Procedures

We are committed to maintaining disclosure controls and procedures designed to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Exchange Act. The evaluation considered the procedures designed to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of June 30, 2016.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation described in this Item 9A that occurred during the fourth quarter of fiscal year 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Remediation of Prior Year Material Weakness

As disclosed in our fiscal year 2015 Form 10-K/A, in November 2015 our management determined that we had a material weakness in the design of our internal controls related to recording revenue. Since that time, with the oversight of our management and audit committee, we have taken steps to remediate the material weakness to ensure that proper extended warranty and any other deliverables in our bill of materials are tracked and related revenue deferrals are recorded. The following steps have been implemented and performed:

Initiation of a review of extended warranty and any other deliverables in our bill of materials for all products;

## Table of Contents

Increased oversight and monitoring by our management of extended warranty and other deliverables in our bill of materials for any new products; and

Documenting and tracking extended warranty and other deliverables in our contract matrix to ensure proper revenue recognition.

Our management believes the foregoing efforts have effectively remediated the material weakness as these procedures have been implemented for a sufficient period of time beginning in the first half of fiscal year 2016 and we have completed our testing of the design and operating effectiveness of these above procedures as of June 30, 2016. As we continue to evaluate and work to improve our internal control over financial reporting, our management may execute additional measures to enhance the overall design of our internal controls.

### Inherent Limitations on Internal Control

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of management override or improper acts, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in a cost-effective control system, misstatements due to management override, error or improper acts may occur and not be detected. Any resulting misstatement or loss may have an adverse and material effect on our business, financial condition and results of operations.

### Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on our evaluation, our management has concluded that our internal control over financial reporting was effective as of June 30, 2016 to provide reasonable assurance regarding the reliability of financial reporting and preparation of consolidated financial statements for external reporting purposes in accordance with United States generally accepted accounting principles. The effectiveness of our internal control over financial reporting as of June 30, 2016 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, and their opinion is stated in their report which is included in this Annual Report on Form 10-K.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Super Micro Computer, Inc.  
San Jose, California

We have audited the internal control over financial reporting of Super Micro Computer, Inc. and subsidiaries (the “Company”) as of June 30, 2016, based on the criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2016, based on the criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended June 30, 2016 of the Company and our report dated August 26, 2016 expressed an unqualified opinion on those financial statements and included an explanatory paragraph relating to significant related party transactions.

/s/ Deloitte & Touche LLP  
San Jose, California  
August 26, 2016

77

---

Table of Contents

## Item 9B. Other Information

None.

## PART III

## Item 10. Directors, Executive Officers, and Corporate Governance

## Executive Officers and Directors

Our executive officers and directors and their ages and their positions as of August 18, 2016, are as follows:

Name	Age	Position(s)
Charles Liang	58	President, Chief Executive Officer and Chairman of the Board
Howard Hideshima	57	Senior Vice President, Chief Financial Officer
Phidias Chou	58	Senior Vice President, Worldwide Sales
Yih-Shyan (Wally) Liaw	61	Senior Vice President of International Sales, Corporate Secretary and Director
Chiu-Chu (Sara) Liu Liang	54	Senior Vice President of Operations, Treasurer and Director
Laura Black(1)(4)	54	Director
Michael S. McAndrews(1)(4)	63	Director
Hwei-Ming (Fred) Tsai(1)(2)(3)(4)	60	Director
Sherman Tuan(2)(3)(4)	62	Director

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

(3) Member of the Nominating and Corporate Governance Committee

(4) Determined by the Board of Directors to be “independent” as defined by applicable listing standards of The NASDAQ Stock Market

## Executive Officers

Charles Liang founded Super Micro and has served as our President, Chief Executive Officer and Chairman of the Board since our inception in September 1993. Mr. Liang has been developing server system architectures and technologies for the past two decades. From July 1991 to August 1993, Mr. Liang was President and Chief Design Engineer of Micro Center Computer Inc., a high-end motherboard design and manufacturing company. From January 1988 to April 1991, Mr. Liang was Senior Design Engineer and Project Leader for Chips & Technologies, Inc., a chipset technology company, and Suntek Information International Group, a system and software development company. Mr. Liang has been granted many server technology patents. Mr. Liang holds an M.S. in Electrical Engineering from the University of Texas at Arlington and a B.S. in Electrical Engineering from National Taiwan University of Science & Technology in Taiwan. Our Nominating and Corporate Governance Committee (“Governance Committee”) concluded that Mr. Liang should serve on the Board based on his skills, experience and qualifications in managing technology businesses, his technical expertise, and his long familiarity with the Company’s business.

Howard Hideshima has served as our Senior Vice President, Chief Financial Officer since May 2014 and our Chief Financial Officer since May 2006. From November 2005 to May 2006, Mr. Hideshima was Vice President of Finance at Force10 Networks, Inc., a network equipment company, and from July 2004 to November 2005, he served as Director of Finance for that company. From April 2001 to June 2004, Mr. Hideshima was Chief Financial Officer and



Edgar Filing: Super Micro Computer, Inc. - Form 10-K

Vice President of Finance and Administration at Virtual Silicon Technology, Inc., a semiconductor intellectual property company. From January 2000 to March 2001, he served as Chief Financial Officer at Internet Corporation, an Internet services company. From January 1999 to December 1999, he was Vice President of Finance and from July 1997 to December 1999 Chief Accounting Officer at ESS Technology, Inc., a fabless semiconductor company. Mr. Hideshima holds an M.B.A. from San Francisco State University and a B.S. in Business Administration from the University of California at Berkeley.

Phidias Chou has served as our Senior Vice President, Worldwide Sales since May 2014 and Vice President, Worldwide Sales from September 2008 to April 2014. Mr. Chou served as our Vice President of Sales, Regional and Strategic

78

---

Table of Contents

Account from July 2006 to August 2008 and served as our Senior Director of Sales from August 2000 to July 2006. From April 1996 to August 2000, Mr. Chou was General Manager at US Sertek, a subsidiary of Acer, Inc., a PC and server company. From July 1992 to April 1996, he was Director of Sales and from October 1987 to July 1992, he was PC Product Manager at Acer Taiwan. Mr. Chou received an M.B.A. from Chung Yuan Christian University and a B.S. in Mechanical Engineering from National Chung Hsing University.

Yih-Shyan (Wally) Liaw co-founded Super Micro and has served as our Senior Vice President of International Sales since May 2014 and Corporate Secretary and a member of our board of directors since our inception in September 1993. Mr. Liaw was our Vice President of International Sales from September 1993 to April 2014. From 1988 to 1991, Mr. Liaw was Vice President of Engineering at Great Tek, a computer company. Mr. Liaw holds an M.S. in Computer Engineering from University of Arizona, an M.S. in Electrical Engineering from Tatung Institute of Technology in Taiwan, and a B.S. degree from Taiwan Provincial College of Marine and Oceanic Technology. Our Governance Committee concluded that Mr. Liaw should serve on the Board based on his skills, experience and qualifications in managing technology businesses, his technical expertise and his long familiarity with the Company's business.

Chiu-Chu (Sara) Liu Liang co-founded Super Micro and has served as Senior Vice President of Operations since May 2014 and Treasurer and a member of our board of directors since our inception in September 1993. Ms. Liang was Vice President of Operations from September 1993 to April 2014. From 1985 to 1993, Ms. Liang held finance and operational positions for several companies, including Micro Center Computer Inc. Ms. Liang holds a B.S. in Accounting from Providence University in Taiwan. Ms. Liang is married to Mr. Charles Liang, our Chairman, President and Chief Executive Officer. Our Governance Committee concluded that Ms. Liang should serve on the Board based on her skills, experience, her general expertise in business and accounting and her long familiarity with the Company's business.

Non-Management Directors

Laura Black has been a member of our board of directors since April 2012. Since March 1999, she has served as a Managing Director of Needham & Company, LLC, a full service investment banking firm. At Needham, she has raised public and private equity capital for numerous technology companies and served as strategic financial advisor on multiple M&A transactions. From July 1995 to February 1999, she served as a Managing Director and Corporate Finance at Black & Company, a regional investment bank subsequently acquired by Wells Fargo Van Kasper. From July 1993 to June 1995, Ms. Black served as a Director for TRW Avionics & Surveillance Group where she evaluated acquisition candidates, managed direct investments and raised venture capital to back spin-off companies. From August 1983 to August 1992, she worked at TRW as an electrical engineer designing spread spectrum communication systems. Ms. Black holds a BSEE from University of California at Davis, a MSEE from Santa Clara University and a MS Management from Stanford. Our Governance Committee concluded that Ms. Black should serve on the Board based on her skills, experience and qualifications in capital finance, her financial literacy and her familiarity with technology businesses.

Michael S. McAndrews has been a member of our board of directors since February 2015. Mr. McAndrews has served as a Principal of Abbott, Stringham & Lynch, an accounting firm serving the Silicon Valley, since September 2013. From June 2002 to June 2013, he served as a Partner at PricewaterhouseCoopers LLP, a multinational professional services network, where he provided tax planning and consulting services to multinational public companies, private companies and their owners and emerging businesses in a variety of industries including high-technology, manufacturing, food processing and wholesale/retail distribution. From November 1979 to June 2002, he worked for Arthur Andersen and Company, a global professional services firm. He served as Partner from 1993 to 2002 where he focused primarily on providing tax planning and compliance services to high technology companies ranging in size from start-ups to large multinational public companies. Mr. McAndrews is a certified public accountant with an active

license in California and holds a Bachelor of Science in Commerce, Accounting degree from Santa Clara University. Our Governance Committee concluded that Mr. McAndrews should serve on the Board based on his skills, experience, his financial literacy and his familiarity with technology businesses.

Hwei-Ming (Fred) Tsai has been a member of our board of directors since August 2006. Mr. Tsai has served as an independent director of ANZ Bank (Taiwan) Limited, a wholly owned subsidiary of Australia and New Zealand Banking Group Limited since September 2013. Mr. Tsai has also been an independent business consultant since January 2010. Mr. Tsai served as Executive Vice President and Chief Financial Officer of SinoPac Bancorp, a financial holding company based in Los Angeles, California from February 2001 and August 2005, respectively, to December 2009. He also served as Senior Executive Vice President of Far East National Bank, a commercial bank that is held by SinoPac Bancorp from December 2002 to December 2009. Mr. Tsai received a Master in Professional Accounting from the University of Texas at Austin and a B.A. in Accounting from National Taiwan University in Taiwan. Our Governance Committee concluded that Mr. Tsai should serve on the Board based on his skills, experience and qualifications in capital finance, his financial literacy and his familiarity with the Company's business.

## Table of Contents

Sherman Tuan has been a member of our board of directors since February 2007. Mr. Tuan is founder of PurpleComm, Inc. (doing business as 9x9.tv), a platform for connected TV, where he has served as Chief Executive Officer since January 2005 and Chairman of the Board since June 2003. From September 1999 to May 2002, he was director of Metromedia Fiber Network, Inc., a fiber optical networking infrastructure provider. Mr. Tuan was co-founder of AboveNet Communications, Inc., an internet connectivity solutions provider, where he served as President from March 1996 to January 1998, Chief Executive Officer from March 1996 to May 2002 and director from March 1996 to September 1999. Mr. Tuan holds a degree in Electrical Engineering from Feng-Chia University in Taiwan. Our Governance Committee concluded that Mr. Tuan should serve on the Board based on his skills, experience and qualifications in managing technology businesses, his technical expertise, and his familiarity with the Company's business.

Except for Mr. Charles Liang and Ms. Chiu-Chu (Sara) Liu Liang who are married, there are no other family relationships among any of our directors or executive officers.

### Composition of the Board

The authorized number of directors of the Company is seven. There are currently seven directors. Our amended and restated certificate of incorporation provides for a classified board of directors divided into three classes. The members of each class are elected to serve a three-year term with the term of office for each class ending in consecutive years. Vacancies may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director. Alternatively, the board of directors, at its option, may reduce the number of directors.

The current composition of the board is:

Class I Directors (terms expiring at the 2016 annual meeting)	Charles Liang Sherman Tuan Yih-Shyan (Wally) Liaw
Class II Directors (terms expiring at the 2017 annual meeting)	Laura Black Michael S. McAndrews
Class III Directors (terms expiring at the 2018 annual meeting)	Chiu-Chu (Sara) Liu Liang Hwei-Ming (Fred) Tsai

## CORPORATE GOVERNANCE

### Corporate Governance Guidelines

We have adopted "Corporate Governance Guidelines" to help ensure that the board of directors is independent from management, appropriately performs its function as the overseer of management, and that the interests of the board of directors and management align with the interests of the stockholders. The "Corporate Governance Guidelines" are available at [www.Supermicro.com](http://www.Supermicro.com) by first clicking on "About Us" and then "Investor Relations" and then "Corporate Governance."

### Code of Ethics

We have adopted a "Code of Business Conduct and Ethics" that is applicable to all directors and employees and embodies our principles and practices relating to the ethical conduct of our business and our long-standing commitment to honesty, fair dealing and full compliance with all laws affecting our business. The "Code of Business Conduct and Ethics" is available at [www.Supermicro.com](http://www.Supermicro.com) by first clicking on "About Us" and then "Investor Relations"

and then “Corporate Governance”. Any substantive amendment or waiver of the Code relating to executive officers or directors will be made only after approval by a committee comprised of a majority of our independent directors and will be promptly disclosed on our website within four business days.

#### Director Independence

The rules of NASDAQ generally require that a majority of the members of a listed company's board of directors be independent. In addition, the listing rules generally require that, subject to specified exceptions, each member of a listed company's audit committee, compensation committee, and nominating and corporate governance committees be independent.

80

---

## Table of Contents

Audit Committee members must also satisfy the independence criteria set forth in Rule 10A-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the listing requirements of The NASDAQ Stock Market. In addition, compensation committee members must satisfy the independence criteria set forth in Rule 10C-1 under the Exchange Act and the listing requirements of The NASDAQ Stock Market.

The board affirmatively determines the independence of each director and nominee for election as a director in accordance with guidelines it has adopted, which include all elements of independence set forth in applicable NASDAQ listing standards. Our director independence standards are set forth in our "Corporate Governance Guidelines" available at the website noted above.

Based on these standards, our board of directors has determined that four of its current seven members, Hwei-Ming (Fred) Tsai, Laura Black, Michael S. McAndrews and Sherman Tuan, are "independent directors" under the applicable rules and regulations of the SEC and the listing requirements and rules of The NASDAQ Stock Market.

### Executive Sessions

Non-management directors meet in executive session without management present each time the board holds its regularly scheduled meetings.

### Communications with the Board of Directors

The board of directors welcomes the submission of any comments or concerns from stockholders or other interested parties. If you wish to send any communications to the board of directors, you may use one of the following methods:

✉ Write to the board at the following address:

Board of Directors  
Super Micro Computer, Inc.  
c/o Robert Aeschliman, General Counsel  
980 Rock Avenue  
San Jose, California 95131

✉ E-mail the board of directors at [BODInquiries@supermicro.com](mailto:BODInquiries@supermicro.com)

Communications that are intended specifically for the independent directors or non-management directors should be sent to the e-mail address or street address noted above, to the attention of the "Independent Directors".

## MEETINGS AND COMMITTEES OF THE BOARD

### Board Meetings

Each director is expected to devote sufficient time, energy and attention to ensure diligent performance of his or her duties and to attend all board and committee meetings. We encourage, but do not require, each board member to attend our annual meeting of stockholders. Five of our directors attended our annual meeting of stockholders held during fiscal 2016. The board of directors held four meetings during fiscal year 2016, each of which were regularly scheduled meetings. The board of directors also acted by written consent one time during fiscal year 2016. All directors attended at least 75% of the meetings of the board of directors and of the committees on which they served during the time they served as a director in fiscal year 2016.

### Board Leadership Structure

Our Chairman, Charles Liang, is also our CEO. The Board and our Nominating and Corporate Governance Committee (the "Governance Committee") believe that it is appropriate for Mr. Liang to serve as both the CEO and Chairman due to the relatively small size of our Board, and the fact that Mr. Liang is the founder of the Company with extensive experience in our industry. The Company does not currently have a lead independent director.

#### Board Role in the Oversight of Risk

Our Board exercises oversight over our risk management activities, requesting and receiving reports from management. The board of directors exercises this oversight responsibility directly and through its committees. Our Board has delegated primary responsibility for oversight of risks relating to financial controls and reporting to our Audit Committee,

81

---

Table of Contents

which in turn reports to the full Board on such matters as appropriate. The Audit Committee also assists the Board in oversight of certain Company risks, particularly in the areas of internal controls, financial reporting and review of related party transactions.

Our management with oversight from our Compensation Committee has reviewed its compensation policies and practices with respect to risk-taking incentives and risk management, and does not believe that potential risks arising from its compensation policies or practices are reasonably likely to have a material adverse effect on the Company.

Committees of the Board of Directors

The board has three standing committees to facilitate and assist the board of directors in discharging its responsibilities: the Audit Committee, the Compensation Committee and the Governance Committee. In accordance with applicable NASDAQ listing standards, each of these committees is comprised solely of non-employee, independent directors. The charter for each committee is available at [www.Supermicro.com](http://www.Supermicro.com) by first clicking on “About Us” and then “Investor Relations” and then “Corporate Governance”. The charter of each committee also is available in print to any stockholder who requests it. The following table sets forth the current members of each of the standing board committees:

Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
Laura Black (1)	Sherman Tuan(1)	Hwei-Ming (Fred) Tsai(1)
Michael S. McAndrews	Hwei-Ming (Fred) Tsai	Sherman Tuan
Hwei-Ming (Fred) Tsai		

---

(1)Committee Chairperson

Audit Committee

The Audit Committee has three members. The Audit Committee met seven times in fiscal year 2016, four of which were regularly scheduled quarterly meetings and three of which were special meetings. Our board has determined that each member of our Audit Committee meets the requirements for independence under the applicable listing standards of NASDAQ and the rules of the SEC. Our board of directors has also determined that each member of our Audit Committee is an “audit committee financial expert” as defined under applicable SEC rules.

As outlined more specifically in the Audit Committee charter, the Audit Committee has, among other duties, the following responsibilities:

- The appointment, compensation and retention of our independent auditors, and the review and evaluation of the auditors’ qualifications, independence and performance;
- Oversees the auditors’ audit work and reviews and pre-approves all audit and non-audit services that may be performed by them;
- Reviews and approves the planned scope of our annual audit;
- Monitors the rotation of partners of the independent auditors on our engagement team as required by law;
- Reviews our financial statements and discusses with management and the independent auditors the results of the annual audit and the review of our quarterly financial statements;
- Reviews our critical accounting policies and estimates;
- Oversees the adequacy of our financial controls;
- Reviews annually the audit committee charter and the committee’s performance;



• Reviews and approves all related-party transactions; and

• Establishes and oversees procedures for the receipt, retention and treatment of complaints regarding accounting, internal controls or auditing matters and oversees enforcement, compliance and remedial measures under our Code of Business Conduct and Ethics; and

• Reviews and evaluates, at least annually, the adequacy of the audit committee charter and recommend any proposed changes to the board of directors for approval.

82

---

Table of Contents

Compensation Committee

The Compensation Committee has two members and met four times in fiscal year 2016. The Compensation Committee is comprised solely of non-employee directors. Our board has determined that each member of our Compensation Committee meets the requirements for independence under the applicable listing standards of NASDAQ.

As outlined more specifically in the Compensation Committee charter, the Compensation Committee has, among other duties, the following responsibilities:

- Periodically reviews and advises our board concerning the Company's overall compensation philosophy, policies and plans, including a review of both regional and industry compensation practices and trends;
- Reviews and approves corporate goals and objectives relevant to compensation of the chief executive officer and other executive officers;
- Evaluates the performance of the chief executive officer and other executive officers in light of those goals and objectives;
- Reviews and approves the compensation of the chief executive officer and other executive officers;
- Administers the issuance of restricted stock grants, stock options and other awards to executive officers and directors under our stock plans; and
- Reviews and evaluates, at least annually, the performance of the compensation committee and its members, including compliance of the compensation committee with its charter and the adequacy of the compensation committee charter.

Nominating and Corporate Governance Committee

The Governance Committee has two members and met four times in fiscal year 2016. The Governance Committee is comprised solely of non-employee directors. Our board has determined that each member of our Governance Committee meets the requirements for independence under the applicable listing standards of NASDAQ.

As outlined more specifically in the Governance Committee charter, the Governance Committee has, among other duties, the following responsibilities:

- Identifies individuals qualified to become directors;
- Recommends to our board of directors director nominees for each election of directors;
- Develops and recommends to our board of directors criteria for selecting qualified director candidates;
- Considers committee member qualifications, appointment and removal;
- Recommends corporate governance guidelines applicable to us;
- Provides oversight in the evaluation of our board of directors and each committee;
- Coordinates and reviews board and committee charters for consistency and adequacy under applicable rules, and make recommendations to the board for any proposed changes; and
- Periodically reviews scope of responsibilities of the Governance Committee and the committee's performance of its duties.

Compensation Committee Interlocks and Insider Participation

None of the members of the Compensation Committee is a current or former officer or employee of the Company or had any relationship with the Company requiring disclosure. In addition, during fiscal year 2016, none of our executive officers served as a member of the board of directors or compensation committee of any other entity that has one or more executive officers who served on our board of directors or Compensation Committee.

Section 16(a) Beneficial Ownership Reporting Compliance

The members of our board of directors, our executive officers and persons who hold more than 10% of our outstanding common stock are subject to the reporting requirements of Section 16(a) of the Exchange Act, which require them to file reports with respect to their ownership of our common stock and their transactions in our common stock. Based upon (i) the copies of Section 16(a) reports that we received from such persons for their fiscal year 2016 transactions in our common stock and their common stock holdings and (ii) the written representations received from one or more of such persons that no annual Form 5 reports were required to be filed by them for fiscal year 2016, we believe that all reporting requirements under Section 16(a) were met in a timely manner by the persons who were executive officers, members of the board of directors or

83

---

Table of Contents

greater than 10% stockholders during such fiscal year, other than one late report made by Phidias Chou with respect to one transaction.

Item 11. Executive Compensation

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Process Overview

The Compensation Committee of the board of directors discharges the board of directors' responsibilities relating to compensation of all of our executive officers. The Compensation Committee is comprised of two non-employee directors, both of whom are independent pursuant to the applicable listing rules of NASDAQ, Rule 16b-3 under the Exchange Act, and Section 162(m) of the Internal Revenue Code ("Code").

The agenda for meetings is determined by the Chair of the Compensation Committee with the assistance of Howard Hideshima, our Chief Financial Officer. Committee meetings are regularly attended by Mr. Hideshima and Robert Aeschliman, our General Counsel. However, Mr. Hideshima does not attend the portion of meetings during which his own performance or compensation is being discussed. Mr. Hideshima and Mr. Aeschliman support the Compensation Committee in its work by providing information relating to our financial plans, performance assessments of our executive officers and other personnel-related data. In addition, the Compensation Committee has the authority under its charter to hire, terminate and approve fees for advisors, consultants and agents as it deems necessary to assist in the fulfillment of its responsibilities. In July 2015, as part of making an overall assessment of each individual's role and performance, and structuring our compensation programs for fiscal year 2016, the Compensation Committee reviewed recommendations of management as well as publicly available peer group compensation data.

Compensation Philosophy and Objectives

It is the Compensation Committee's philosophy to link the named executive officers' compensation to corporate performance. The base salary, quarterly bonuses and stock option grants of the named executive officers are determined in part by the Compensation Committee reviewing data on prevailing compensation practices of comparable technology companies with whom we compete for executive talent, and evaluating such information in connection with our corporate goals and compensation practices. The Company's compensation philosophy has been unchanged over the last several years.

The Compensation Committee considers various sources of competitive data when determining executive compensation levels, including compensation data from a sampling of public companies and public compensation surveys. For fiscal year 2016, the sample of companies consisted of the following companies:

Brocade Communications Systems, Inc.	Infinera Corporation
Cray, Inc.	NetApp, Inc.
Extreme Networks, Inc.	Netgear, Inc.

In selecting the companies for inclusion in the sample, the following factors were considered: industry, net revenues, operating income and whether the company may compete against us for executive talent. These companies ranged in annual revenue from approximately \$552.9 million to \$6.1 billion. In addition to gathering data specific to the above listed companies, the Compensation Committee also reviewed public surveys of compensation practices.

The Compensation Committee does not seek to specifically benchmark compensation based upon the sample companies reviewed nor does the Compensation Committee employ any other formulaic process in making compensation decisions. Rather the Compensation Committee uses its subjective judgment based upon a review of all information, including an annual review for each officer of his or her level of responsibility, contributions to our financial results and our overall performance. The Compensation Committee makes a generalized assessment of these factors and this information is not weighted in any specific manner.

We believe that our current compensation arrangements for several of our executive officers, including our Chief Executive Officer, are significantly below typical compensation levels for similar positions at comparable companies. This is principally due to the high level of Company stock ownership held by such persons. As we continue to grow, we may need to increase our recruiting of new

## Table of Contents

executives from outside of the Company. This in turn may require us to pay higher compensation closer to or in excess of that typical paid by comparable companies.

Finally, we believe that creating stockholder value requires not only managerial talent but active participation by all employees. In recognition of this, we try to minimize the number of compensation arrangements that are distinct or exclusive to our executive officers. We currently provide base salary, quarterly bonuses and long-term equity incentive compensation to a considerable number of our domestic employees and international employees, in addition to our executive officers.

### The Role of Stockholder Say-on-Pay Votes

Our board of directors, the Compensation Committee, and our management value the opinions of our stockholders. At our annual meeting of stockholders held on February 13, 2014 (the "2013 Annual Meeting"), we provided our stockholders the opportunity to vote to approve, on an advisory basis, the compensation of the Company's named executive officers as disclosed in the proxy statement for our 2013 Annual Meeting. At the meeting, 35,521,057 shares or approximately 98.1% of the stockholders who voted on the "say-on-pay" proposal approved the compensation of our named executive officers, while only 514,344 or approximately 1.4% voted against (with approximately 155,954 shares or 0.4% abstaining). 4,727,490 shares held by brokers were not voted with respect to this proposal. Although the advisory stockholder vote on executive compensation is non-binding, the Compensation Committee has considered and will continue to consider, the outcome of the vote when making future compensation decisions for named executive officers. In determining and deciding on executive compensation for fiscal year 2016, our Compensation Committee took into account the results of the 2013 Annual Meeting stockholder advisory vote to approve executive compensation, particularly the strong support expressed by the Company's stockholders, as one of the many factors considered in deciding that the Company's compensation policies and procedures for 2016 should largely remain consistent with our policies and procedures in prior years.

### Role of Executive Officers in the Compensation Process

Management provides recommendations to the Compensation Committee on issues such as compensation program design, and evaluations of executive and Company performance. In fiscal year 2016, the Compensation Committee also had access to competitive data collected by management. While the Compensation Committee carefully considers all recommendations made by members of management, ultimate authority for all compensation decisions regarding our executive officers rests with the Compensation Committee.

In addition, the Company evaluates the use of a compensation consultant each year, but currently does not feel that it is necessary to engage a compensation consultant as part of the Company's compensation process.

### Fiscal Year 2016 Executive Officer Compensation Components

For fiscal year 2016, the principal components of compensation for our executive officers were:

- Base salary;
- Quarterly bonus; and
- Equity-Based Incentive Compensation.

**Base Salary.** Base salaries for our executive officers other than the Chief Executive Officer are determined annually by the Compensation Committee based upon recommendations by our chief executive officer, taking into account such factors as salary norms in comparable companies and publicly available data regarding compensation increases in the industry, a subjective assessment of the nature of the position and an annual review of the contribution and

experience of each executive officer. For the Chief Executive Officer, the Compensation Committee considers substantially the same sort of information, as well as the size of the Company and the Chief Executive Officer's overall stock ownership.

#### Fiscal Year 2016 Executive Officer Compensation

In July 2015, the Compensation Committee met to review the base salaries of our executive officers for fiscal year 2016. In determining base salaries for fiscal year 2016, the Compensation Committee decided to increase the base salary of our executive officers other than the Chief Executive Officer after taking into account the recommendations of our Chief Executive Officer and taking into account such factors as salary norms in comparable companies and publicly available data regarding compensation increases in the industry, a subjective assessment of the nature of each position and an annual review of the contribution and experience of each executive officer. For the Chief Executive Officer, the Compensation Committee considered substantially the same sort of information, as well as the size of the Company and the Chief Executive Officer's stock ownership, and determined to increase the base salary of the Chief Executive Officer. Based upon its review, the Compensation Committee approved increases in base salaries for our executive officers set forth below. The base salary increases were comparable to the average percentage base salary increases granted to our employees generally.

Table of Contents

	Principal Position	2015 Base Salary	2016 Base Salary	Base Salary % Change	
Charles Liang	President, Chief Executive Officer and Chairman of the Board	\$ 331,963	\$ 365,160	10.0	%
Howard Hideshima	Senior Vice President and Chief Financial Officer	\$ 300,956	\$ 322,023	7.0	%
Phidias Chou	Senior Vice President, Worldwide Sales	\$ 273,635	\$ 287,317	5.0	%
Yih-Shyan (Wally) Liaw	Senior Vice President, International Sales, Corporate Secretary and Director	\$ 222,216	\$ 233,327	5.0	%
Chiu-Chu (Sara) Liang	Senior Vice President of Operations, Chief Administration Officer, Treasurer, and Director	\$ 216,505	\$ 238,156	10.0	%

Quarterly Bonus. Our cash bonus program seeks to motivate executive officers to work effectively to achieve our financial performance objectives and to reward them when such objectives are met. Quarterly bonuses for executive officers are subject to approval by the Compensation Committee. Bonuses are not awarded based upon any specific plan or formula, but are subjectively determined based upon our performance during the quarter and the individual's contributions. Historically these bonuses have ranged from zero to an amount equal to two weeks of base salary. For fiscal year 2016, approximately one week of base salary was granted to our Senior Vice President, Worldwide Sales and no bonus were granted to other executive officers.

Equity-Based Incentive Compensation. Stock options and other equity-based awards are an important component of the total compensation of executive officers. We believe that equity-based awards align the interests of each executive with those of our stockholders. They also provide executive officers a significant, long-term interest in our success and help retain key executive officers in a competitive market for executive talent. Our 2016 Equity Incentive Plan authorizes the Compensation Committee to grant stock options and other equity-based awards to executive officers. The number of shares owned by, or subject to equity-based awards held by, each executive officer is periodically reviewed and additional awards are considered based upon a generalized assessment of past performance of the executive and the relative holdings of other executive officers. The stock options and restricted stock unit awards granted to executive officers by the Compensation Committee generally vest over periods of four years, and stock options expire no later than ten years from the date of grant.

In fiscal year 2016, the Compensation Committee approved grants of additional stock options and restricted stock units to Mr. Chou, Mr. Liaw and Mrs. Liang, as part of the Compensation Committee's review of all employee grant levels.

#### Stock Ownership Guidelines

We currently do not require our directors or executive officers to own a particular amount of our common stock. The Committee is satisfied that stock and option holdings among our directors and executive officers are sufficient at this time to provide motivation and to align this group's interests with those of our stockholders. Our insider trading policy prohibits any of our directors, executive officers, employees or contractors from engaging in any transactions in publicly-traded options, such as puts and calls, and other derivative securities, including any hedging or similar transaction, with respect to our common stock.

#### Stock Retention Policy

We have adopted a stock retention policy which requires that our Chief Executive Officer hold a significant portion of the shares of our common stock acquired under our equity incentive plan for at least 36 months. Under the policy, the Chief Executive Officer must retain at least 50% of all "net" shares received ("net" shares means those shares remaining



after the sale or withholding of shares in payment of the exercise price, if applicable, and withholding taxes) for at least 36 months following the date on which an equity award is vested, settled or exercised.

#### Recoupment Policy

We established a Recoupment Policy that is applicable to our executive officers. Under the policy, if we are required to prepare an accounting restatement due to material noncompliance with the financial reporting requirements under United States securities laws, the Compensation Committee shall be entitled to recover from any current or former executive officer any excess incentive-based compensation received by such person during the three year period prior to the date on which we are required to prepare the restatement. This policy applies to both equity-based and cash-based incentive compensation awards. The “excess compensation” is the difference between the actual amount that was paid, and the amount that would have been paid under the restated financial results.

## Table of Contents

### Other Benefits

#### Health and Welfare Benefits

Our executive officers receive the same health and welfare benefits as are offered to our other employees, including medical, dental, vision, life, accidental death and dismemberment, disability, flexible spending accounts and holiday pay. The same contribution amounts, percentages and plan design provisions are applicable to all employees.

#### Retirement Program

Our executive officers may participate in the same tax-qualified, employee-funded 401(k) plan that is offered to all our other employees. We currently have no Supplemental Executive Retirement Plan, or SERP, obligations. We do not offer any defined benefit retirement plans to our executive officers.

#### Perquisites

We do not provide special benefits or other perquisites to any of our executive officers.

#### Employment Arrangements, Severance and Change of Control Benefits

We have not entered into employment agreements with any of our named executive officers. Mr. Hideshima, Mr. Chou and Ms. Liang have signed offer letters which provide for at-will employment. The offer letters provide for salary, stock options and right to participate in our employee benefit plans. We do not have any written employment arrangements with Messrs. Liang and Liaw. We do not have any arrangements with any of our executive officers that provide for any severance benefits in the event of termination or change of control.

#### Tax and Accounting Treatment of Compensation

In our review and establishment of compensation programs and payments, we consider, but do not place great emphasis on, the anticipated accounting and tax treatment of our compensation programs on us and our executive officers. While we may consider accounting and tax treatment, these factors alone are not dispositive. Among other factors that receive greater consideration are the net costs to us and our ability to effectively administer executive compensation in the short and long-term interests of stockholders under a proposed compensation arrangement.

We have endeavored to structure the performance-based incentive elements of executive compensation to meet the requirements for deductibility under Section 162(m). The Committee does not believe that compensation decisions should be constrained by how much compensation is deductible for federal tax purposes. Accordingly, the Committee is not limited to paying compensation under plans that are qualified under Section 162(m) and the Committee's ability to retain flexibility in this regard may, in certain circumstance, outweigh the advantages of qualifying all compensation as deductible under Section 162(m).

The Committee will continue to assess the impact of Section 162(m) on its compensation practices and determine what further action, if any, is appropriate.

We account for equity compensation paid to our employees in accordance with Accounting Standards Codification Topic 718, Stock Compensation ("ASC Topic 718"), which requires us to estimate and record expenses for each award of equity compensation over the service period of the award.

We intend that our plans, arrangements and agreements will be structured and administered in a manner that complies with the requirements of Section 409A of the Code. Participation in, and compensation paid under our plans, arrangements and agreements may, in certain instances, result in the deferral of compensation that is subject to the requirements of Section 409A. If our plans, arrangements and agreements as administered fail to meet certain requirements under Section 409A, compensation earned thereunder may be subject to immediate taxation and tax penalties.

#### Summary

The Committee believes that our compensation philosophy and programs are designed to foster a performance-oriented culture that aligns our executive officers' interests with those of our stockholders. The Committee also believes that the compensation of our executive officers is both appropriate and responsive to the goal of building stockholder value.

87

---

Table of Contents

Compensation Committee Report

The Committee has reviewed and discussed the Compensation Discussion and Analysis (“CD&A”) with the Company’s management. Based on this review and these discussions, the Committee recommended to the board of directors that the CD&A be included in this filing.

This report has been furnished by the Compensation Committee.

Sherman Tuan, Chair  
Hwei-Ming (Fred) Tsai

88

---

Table of Contents

## Summary Compensation Table

The following table sets forth information concerning the compensation earned during the fiscal years ended 2016, 2015 and 2014 by our Chief Executive Officer, our Chief Financial Officer, and our three other most highly-compensated executive officers. We refer to these officers as our “named executive officers.”

## SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$)	Bonus (\$)(1)	Stock Awards (\$)	Option Awards (\$)(2)	Non-Equity and Incentive Plan Compensation (\$)	Change in Pension Value	All Other Compensation (\$)(4)	Total (\$)
							Nonqualified Deferred Compensation Earnings (\$)(3)		
Charles Liang President, Chief Executive Officer and Chairman of the Board	2016	363,776	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$363,776
	2015	331,963	7,607	—	2,607,616	—	—	35,565	2,982,751
	2014	312,793	—	—	—	—	—	17,505	330,298
Howard Hideshima Senior Vice President and Chief Financial Officer	2016	321,146	—	—	—	—	—	1,500	322,646
	2015	300,956	6,990	—	403,580	—	—	14,860	726,386
	2014	286,173	2,593	—	—	—	—	9,839	298,605
Phidias Chou Senior Vice President, Worldwide Sales	2016	286,747	3,416	137,160	138,000	—	—	—	565,323
	2015	273,635	6,446	—	—	—	—	26,643	306,724
	2014	257,396	2,341	—	225,577	—	—	14,042	499,356
Yih-Shyan (Wally) Liaw Senior Vice President, International Sales, Corporate Secretary and Director	2016	232,864	—	109,959	105,089	—	—	—	447,912
	2015	222,216	5,422	—	—	—	—	25,055	252,693
	2014	206,122	1,867	—	202,899	—	—	11,196	422,084
Chiu-Chu (Sara) Liu Liang Senior Vice President of Operations, Treasurer and Director	2016	237,253	—	110,484	13,961	—	—	—	461,698
	2015	216,505	5,309	—	—	—	—	14,041	235,855
	2014	200,357	1,814	—	174,800	—	—	5,806	382,777

(1) Amounts disclosed under “Bonus” reflect the cash bonuses earned by the named executive officers.

The dollar amount reported in the Option Awards column represents the grant date fair value of each award calculated in accordance with FASB ASC Topic 718, excluding the estimates of service-based forfeiture and using

(2) the Black Scholes option-pricing model. Assumptions used in the calculation of these amounts were included in Item 8, Financial Statements and Supplementary Data, and Note 10 of Notes to our audited Consolidated Financial Statements for the fiscal year 2016 included in our Annual Report on Form 10-K.

(3) The Company does not have a defined benefit plan or a non-qualified deferred compensation plan.

(4) Amount reflects vacation and sick pay.



Table of Contents

## Grants of Plan-Based Awards

The following table provides information concerning all plan-based awards granted during fiscal year 2016 to our named executive officers:

## GRANTS OF PLAN-BASED AWARDS

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Grant Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$)(1)
		Threshold	Target	Maximum				
Phidias Chou	10/21/2015	—	—	—	5,400	(2)—	\$ —	—\$137,160
Phidias Chou	10/21/2015	—	—	—	—	7,130	(3)25.40	81,995
Phidias Chou	10/21/2015	—	—	—	—	4,870	(4)25.40	56,005
Yih-Shyan (Wally) Liaw	4/27/2016	—	—	—	3,830	(5)—	—	109,959
Yih-Shyan (Wally) Liaw	4/27/2016	—	—	—	—	3,390	(6)28.71	41,912
Yih-Shyan (Wally) Liaw	4/27/2016	—	—	—	—	5,110	(7)28.71	63,177
Chiu-Chu (Sara) Liu Liang	1/27/2016	—	—	—	4,050	(8)—	—	110,484
Chiu-Chu (Sara) Liu Liang	1/27/2016	—	—	—	—	9,000	(9)27.28	113,961

(1) Represents the fair value of each stock option and award as of the date of grant, computed in accordance with ASC Topic 718.

(2) These time-based restricted stock units vest at the rate of 25% on November 10, 2016 and 1/16th per quarter thereafter, such that the shares will be fully vested on November 10, 2019.

(3) These non-qualified stock options vest at the rate of 25% on September 13, 2016 and 1/16th per quarter thereafter, such that the shares will be fully vested on September 13, 2019.

(4) These incentive stock options vest at the rate of 25% on September 13, 2016 and 1/16th per quarter thereafter, such that the shares will be fully vested on September 13, 2019.

(5) These time-based restricted stock units vest at the rate of 25% on May 10, 2017 and 1/16th per quarter thereafter, such that the shares will be fully vested on May 10, 2020.

(6) These non-qualified stock options vest at the rate of 25% on March 29, 2017 and 1/16th per quarter thereafter, such that the shares will be fully vested on March 29, 2020.

(7) These incentive stock options vest at the rate of 25% on March 29, 2017 and 1/16th per quarter thereafter, such that the shares will be fully vested on March 29, 2020.

(8) These time-based restricted stock units vest at the rate of 25% on February 10, 2017 and 1/16th per quarter thereafter, such that the shares will be fully vested on February 10, 2020.

(9) These non-qualified stock options vest at the rate of 25% on December 12, 2016 and 1/16th per quarter thereafter, such that the shares will be fully vested on December 12, 2019.

## Outstanding Equity Awards at Fiscal Year-End 2016

The following table provides information concerning the outstanding equity-based awards as of June 30, 2016, and the option exercise price and expiration dates for each award, held by each of our named executive officers.





Edgar Filing: Super Micro Computer, Inc. - Form 10-K

Table of Contents

Name	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of shares or units of stock that have not vested (#)	Market value of shares or units of stock that have not vested (\$)(1)
Charles Liang	720,000	(2) —	\$ 10.66	3/4/2019		
	132,000	(3) —	\$ 18.59	4/25/2021		
	202,352	(4) 28,908	\$ 20.70	1/21/2023		
	62,530	(5) 104,220	\$ 35.07	1/19/2025		
Howard Hideshima	19,198	(6) —	\$ 13.89	11/17/2016		
	21,428	(6) —	\$ 13.89	11/17/2016		
	22,500	(7) —	\$ 10.19	4/26/2017		
	56,614	(8) —	\$ 13.61	8/2/2020		
	10,886	(8) —	\$ 13.61	8/2/2020		
	37,810	(9) —	\$ 12.50	8/6/2022		
	8,690	(9) —	\$ 12.50	8/6/2022		
	13,370	(10) 13,370	\$ 26.75	8/4/2024		
	3,630	(10) 3,630	\$ 26.75	8/4/2024		
	Phidias Chou	17,500	(11) —	\$ 5.53	4/29/2019	
31,030		(12) —	\$ 8.36	10/26/2019		
18,970		(12) —	\$ 8.36	10/26/2019		
32,850		(13) —	\$ 15.22	10/24/2021		
6,150		(13) —	\$ 15.22	10/24/2021		
11,843		(14) 5,384	\$ 14.23	10/21/2023		
11,530		(14) 5,243	\$ 14.23	10/21/2023		
—		(15) 7,130	\$ 25.40	10/21/2025		
—		(15) 4,870	\$ 25.40	10/21/2025		
Yih-Shyan (Wally) Liaw	10,635	(17) —	\$ 7.46	4/28/2018		
	30,275	(17) —	\$ 7.46	4/28/2018		
	10,079	(18) —	\$ 13.61	8/2/2020		
	7,671	(18) —	\$ 13.61	8/2/2020		
	18,313	(19) —	\$ 17.29	4/23/2022		
	8,687	(19) —	\$ 17.29	4/23/2022		
	8,694	(20) 6,764	\$ 18.93	4/21/2024		
	4,241	(20) 3,301	\$ 18.93	4/21/2024		
	—	(21) 3,390	\$ 28.71	4/27/2026		
	—	(21) 5,110	\$ 28.71	4/27/2026		
Chiu-Chu (Sara) Liu Liang	20,300	(11) —	\$ 5.53	4/29/2019		
	19,615	(23) —	\$ 11.81	1/25/2020		
	20,985	(23) —	\$ 11.81	1/25/2020		
	29,000	(24) —	\$ 17.09	1/23/2022		
	14,375	(25) 8,625	\$ 17.96	1/20/2024		
					5,400(16) 134,190	
					3,830(22) 95,176	

— 9,000 (26) \$ 27.28 1/27/2026 4,050(27) 100,643

Table of Contents

- (1) Represents the fair market value per share of our common stock June 30, 2016 (\$24.85) multiplied by the number of shares underlying RSUs that had not vested as of June 30, 2016.
- (2) Options vested at the rate of 25% on November 1, 2009 and 1/16th per quarter thereafter, such that the shares were fully vested on November 1, 2012.
- (3) Options vested at the rate of 25% on April 25, 2012 and 1/16th per quarter thereafter, such that the shares were fully vested on April 25, 2015.
- (4) Options vested at the rate of 25% on November 1, 2013 and 1/16th per quarter thereafter, such that the shares will be fully vested on November 1, 2016.
- (5) Options vested at the rate of 25% on November 1, 2015 and 1/16th per quarter thereafter, such that the shares will be fully vested on November 1, 2018.
- (6) Options vested at the rate of 25% on May 8, 2007 and 1/16th per quarter thereafter, such that the shares were fully vested on May 8, 2010.
- (7) Options vested at the rate of 25% on April 26, 2008 and 1/16th per quarter thereafter, such that the shares were fully vested on April 26, 2011.
- (8) Options vested at the rate of 25% on May 8, 2011 and 1/16th per quarter thereafter, such that the shares were fully vested on May 8, 2014.
- (9) Options vested at the rate of 25% on May 7, 2013 and 1/16th per quarter thereafter, such that the shares were fully vested on May 7, 2016.
- (10) Options vested at the rate of 25% on May 8, 2015 and 1/16th per quarter thereafter, such that the shares will be fully vested on May 8, 2018.
- (11) Options vested at the rate of 25% on April 29, 2010 and 1/16th per quarter thereafter, such that the shares were fully vested on April 29, 2013.
- (12) Options vested at the rate of 25% on July 1, 2010 and 1/16th per quarter thereafter, such that the shares were fully vested on July 1, 2013.
- (13) Options vested at the rate of 25% on July 1, 2012 and 1/16th per quarter thereafter, such that the shares were fully vested on July 1, 2015.
- (14) Options vested at the rate of 25% on September 13, 2014 and 1/16th per quarter thereafter, such that the shares will be fully vested on September 13, 2017.
- (15) Options vest at the rate of 25% on September 13, 2016 and 1/16th per quarter thereafter, such that the shares will be fully vested on September 13, 2019.
- (16) RSUs vest at the rate of 25% on November 10, 2016 and 1/16th per quarter thereafter, such that the shares will be fully vested on November 10, 2019.
- (17) Options vested at the rate of 25% on March 30, 2009 and 1/16th per quarter thereafter, such that the shares were fully vested on March 30, 2012.
- (18) Options vested at the rate of 25% on August 2, 2011 and 1/16th per quarter thereafter, such that the shares were fully vested on August 2, 2014.
- (19) Options vested at the rate of 25% on March 29, 2013 and 1/16th per quarter thereafter, such that the shares were fully vested on March 29, 2016.
- (20) Options vested at the rate of 25% on March 30, 2015 and 1/16th per quarter thereafter, such that the shares will be fully vested on March 30, 2018.
- (21) Options vest at the rate of 25% on March 29, 2017 and 1/16th per quarter thereafter, such that the shares will be fully vested on March 29, 2020.
- (22) RSUs vest at the rate of 25% on May 10, 2017 and 1/16th per quarter thereafter, such that the shares will be fully vested on May 10, 2020.
- (23) Options vested at the rate of 25% on December 12, 2010 and 1/16th per quarter thereafter, such that the shares were fully vested on December 12, 2013.
- (24) Options vested at the rate of 25% on December 12, 2012 and 1/16th per quarter thereafter, such that the shares were fully vested on December 12, 2015.
- (25)

Edgar Filing: Super Micro Computer, Inc. - Form 10-K

Options vested at the rate of 25% on December 12, 2014 and 1/16th per quarter thereafter, such that the shares will be fully vested on December 12, 2017.

(26) Options vest at the rate of 25% on December 12, 2016 and 1/16th per quarter thereafter, such that the shares will be fully vested on December 12, 2019.

(27) RSUs vest at the rate of 25% on February 10, 2017 and 1/16th per quarter thereafter, such that the shares will be fully vested on February 10, 2020.

Table of Contents

## Option Exercises and Stock Vested During Fiscal Year 2016

The following table sets forth the dollar amounts realized pursuant to the exercise or vesting of equity-based awards by our named executive officers during fiscal year 2016.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired	Value Realized on Exercise (\$)(#)	Number of Shares Acquired	Value Realized on Vesting (\$)(#)
Charles Liang	—	\$ —	—	\$ —
Howard Hideshima	40,624	\$ 626,078	—	\$ —
Phidias Chou	10,000	\$ 237,799	—	\$ —
Yih-Shyan (Wally) Liaw	20,000	\$ 494,333	—	\$ —
Chiu-Chu (Sara) Liu Liang	—	\$ —	—	\$ —

- (1) Based on the difference between the closing price of our common stock on the date of exercise and the exercise price.
- (2) The value is the closing price of our common stock on the date of vesting, multiplied by the number of shares vested.

## Director Compensation

Under our director compensation policy, we reimburse non-employee directors for reasonable expenses in connection with attendance at board and committee meetings. Our non-employee directors receive an annual retainer of \$40,000, payable quarterly. In addition, the Chairperson of our Audit Committee receives an annual retainer of \$25,000, the Chairperson of each of our Compensation Committee and Nominating and Corporate Governance Committee receives an annual retainer of \$5,000 and each director serving in a non-chairperson capacity on our standing board committees receives an annual retainer of \$2,500 per committee, payable quarterly.

Non-employee directors also are eligible to receive stock options under our 2016 Equity Incentive Plan. Under the policy, non-employee directors are granted an initial option to purchase 18,000 shares upon first becoming a member of our board of directors. A non-employee director serving as Chairperson of the Audit Committee receives an additional initial grant of an option to purchase 12,000 shares. Non-employee directors serving as Chairperson of the Compensation or Nominating and Corporate Governance Committees receive an additional initial grant of an option to purchase 2,000 shares. Each of these initial options vests and becomes exercisable over four years, with the first 25% of the shares subject to each initial option vesting on the first anniversary of the date of grant and the remainder vesting quarterly thereafter. Immediately after each of our annual meetings of stockholders, each non-employee director is granted an option to purchase 4,500 shares of our common stock, the Audit Committee Chairperson is granted an additional annual option to purchase 3,000 shares of our common stock and the Chairperson of each of the Compensation and Nominating and Corporate Governance Committees is granted an additional annual option to purchase 500 shares of our common stock. These options will vest and become exercisable on the first anniversary of the date of grant or immediately prior to our annual meeting of stockholders, if earlier.

The options granted to non-employee directors have a per share exercise price equal to 100% of the fair market value of the underlying shares on the date of grant, and will become fully vested if we are subject to a change of control. Annual grants will be reduced proportionally if the person did not serve for the full year after the annual grant.

The following table shows for the fiscal year ended June 30, 2016 certain information with respect to the compensation of all of our non-employee directors:



Table of Contents

## DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash \$(1)	Stock Awards (\$)	Option Awards \$(2)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Non-qualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Laura Black	\$ 65,000	—	\$ 105,737	—	—	—	\$ 170,737
Michael McAndrews	\$ 42,500	—	\$ 63,442	—	—	—	\$ 105,942
Hwei-Ming (Fred) Tsai	\$ 50,000	—	\$ 70,491	—	—	—	\$ 120,491
Sherman Tuan	\$ 47,500	—	\$ 70,491	—	—	—	\$ 117,991

(1) This column represents annual director fees, non-employee committee chairman fees and other committee member fees earned in fiscal year 2016.

The dollar amount in this column represents the grant date fair value of each award calculated in accordance with FASB ASC Topic 718, excluding the estimates of service-based forfeiture and using the Black Scholes option-pricing model. Assumptions used in the calculation of these amounts were included in Item 8, Financial Statements and Supplementary Data, and Note 10 of Notes to our audited Consolidated Financial Statements for the fiscal year 2016 included in our Annual Report on Form 10-K.

The table below sets forth the aggregate number of option awards held by our non-employee directors as of June 30, 2016.

Name	Option Awards
Laura Black	24,000
Michael McAndrews	22,500
Hwei-Ming (Fred) Tsai	60,000
Sherman Tuan	64,500

Table of Contents

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

## Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information known to us regarding beneficial ownership of our common stock as of August 18, 2016 by:

- each of the named executive officers;
- each of our directors;
- all directors and executive officers as a group; and
- all person known to us beneficially own 5% or more of our outstanding common stock.

Name and Address of Beneficial Owner(1)	Amount and Nature of Beneficial Ownership(2)	Percent of Common Stock Outstanding(3)	
Executive Officers and Directors:			
Charles Liang(4)	8,913,570	17.9	%
Howard Hideshima(5)	196,250	*	
Phidias Chou(5)	134,998	*	
Chiu-Chu (Sara) Liang(6)	8,913,570	17.9	%
Yih-Shyan (Wally) Liaw(7)	2,242,386	4.6	%
Laura Black(5)	16,500	*	
Michael S. McAndrews(5)	6,750	*	
Hwei-Ming (Fred) Tsai(8)	306,000	*	
Sherman Tuan(5)	59,500	*	
All directors and executive officers as a group (9 persons)(9)	11,875,954	23.5	%
5% Holders Not Listed Above:			
BlackRock, Inc.(10)	3,457,156	7.1	%
FMR LLC(11)	3,917,139	8.1	%
The Vanguard Group(12)	3,139,239	6.5	%

\*Represents beneficial ownership of less than one percent of the outstanding shares of common stock

Except as otherwise indicated, to our knowledge the persons named in this table have sole voting and investment (1) power with respect to all shares of Common Stock shown as beneficially owned by them, subject to community property laws applicable and to the information contained in the footnotes to this table.

(2) Under the SEC rules, a person is deemed to be the beneficial owner of shares that can be acquired by such person within 60 days upon the exercise of options.

(3) Calculated on the basis of 48,656,429 shares of common stock outstanding as of August 18, 2016, provided that any additional shares of Common Stock that a stockholder has the right to acquire within 60 days after August 18, 2016 are deemed to be outstanding for the purposes of calculating that stockholder's percentage of beneficial ownership.

(4) Includes 1,141,758 shares issuable upon the exercise of options exercisable within 60 days after August 18, 2016. Also includes 3,180,387 shares jointly held by Mr. Liang and his spouse, 1,703,468 shares of which are pledged as security for a personal credit line, 850,000 shares held by Mr. Liang which are pledged as security for a personal credit line, 15,000 shares held by Green Earth Charitable Trust, for which Mrs. Liang serves as trustee, 495,620 shares held directly by Mrs. Liang and 105,712 shares issuable upon the exercise of options held by Mrs. Liang and exercisable within 60 days after August 18, 2016. See footnote 6.



- (5) Consists of shares issuable upon the exercise of options exercisable within 60 days after August 18, 2016.

Includes 105,712 shares issuable upon the exercise of options exercisable within 60 days after August 18, 2016.

- (6) Also includes 3,180,387 shares jointly held by Mr. Liang and his spouse, 1,703,468 shares of which are pledged as security for a personal credit line, 15,000 shares held by Green Earth Charitable Trust, 3,975,093 shares held by Charles Liang, Mrs. Liang's spouse, 850,000 shares of which are pledged as security for a personal credit line, and 1,141,758 shares issuable upon the exercise of options held by Mr. Liang and exercisable within 60 days after August 18, 2016. See footnote 4.

Table of Contents

- Includes 100,033 shares issuable upon the exercise of options exercisable within 60 days after August 18, 2016.
- (7) 2,054,340 shares held by Liaw Family Trust, for which Mr. Liaw and his spouse serve as trustees, 19,836 shares held by Mr. Liaw's daughters and 68,177 shares held by Mrs. Liaw.
- (8) Includes 55,000 shares issuable upon the exercise of options exercisable within 60 days after August 18, 2016.
- (9) Includes 1,816,501 shares issuable upon the exercise of options exercisable within 60 days after August 18, 2016. The information with respect to the holdings of entities affiliated with BlackRock, Inc. ("BlackRock") is based solely on Schedule 13G/A filed on January 22, 2016 by BlackRock. BlackRock has the sole power to vote or to direct the vote of 3,375,388 of such shares. BlackRock has the sole power to dispose or to direct the disposition of all of such shares. The address for BlackRock is 55 East 52nd Street, New York, New York 10055.
- (10) The information with respect to the holdings of FMR LLC ("FMR") is based solely on Schedule 13G filed on February 12, 2016 by FMR. FMR has the sole power to dispose or to direct the disposition of all of such shares. FMR has the sole power to vote or to direct the vote of 166,981 of such shares. The address for FMR is 245 Summer Street, Boston, Massachusetts 02210.
- (11) The information with respect to the holdings of entities affiliated with The Vanguard Group ("Vanguard") is based solely on Schedule 13G filed on February 10, 2016 by Vanguard. Vanguard has the sole power to dispose of or to direct the disposition of 3,057,098 of such shares and shared power to dispose or to direct the disposition of 82,141 of such shares. Vanguard has the sole power to vote or direct to vote of 80,741 of such shares and shared power to vote or direct to vote of 3,700 of such shares. The address for Vanguard is 100 Vanguard Blvd, Malvern, Pennsylvania 19355.
- (12)

Equity Compensation Plan Information

We currently maintain three compensation plans that provide for the issuance of our Common Stock to officers and other employees, directors and consultants. These consist of the 1998 Stock Option Plan, the 2006 Equity Incentive Plan and the 2016 Equity Incentive Plan, all of which have been approved by our stockholders. We no longer grant any equity-based awards under the 1998 Stock Option Plan and the 2006 Equity Incentive Plan. The following table sets forth information regarding outstanding options and restricted stock units and shares reserved and remaining available for future issuance under the foregoing plans as of June 30, 2016:

Plan Category	Number of shares to be issued upon exercise of outstanding options, warrants and rights (a)(1)	Weighted-average exercise price of outstanding options, warrants and rights (b)(2)(3)	Number of shares remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a)) (c)	
Equity compensation plans approved by stockholders	9,887,850	\$ 14.88	4,294,003	(1)
Equity compensation plans not approved by stockholders	—	—	—	
Total	9,887,850	\$ 14.88	4,294,003	

(1) This number includes 8,960,867 shares subject to outstanding options and 926,983 shares subject to outstanding RSU awards.

The weighted average exercise price is calculated based solely on the exercise prices of the outstanding options and (2) does not reflect the shares that will be issued upon the vesting of outstanding awards of RSUs, which have no exercise price.

(3) The weighted-average remaining contractual term of our outstanding options as of June 30, 2016 was 5.20 years.

96

---

Table of Contents

Item 13. Certain Relationships and Related Transactions and Director Independence

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Procedures for Approval of Related Person Transactions

Pursuant to our Audit Committee charter, the Audit Committee has the responsibility for the review, approval or ratification of any related person transactions; provided that if the matter or transaction involves employment or compensation terms for services to our company, including retention or payment provisions relating to expert services, then it is presented to the Compensation Committee. In approving or rejecting a proposed transaction, our Audit Committee will consider the relevant facts and circumstances available and deemed relevant, including, but not limited to the risks, costs and benefits to us, the terms of the transaction, the availability of other sources for comparable services or products, and, if applicable, the impact on a director's independence. Our Audit Committee shall approve only those transactions that, in light of known circumstances are not inconsistent with the Company's best interests, as the Audit Committee determines in the good faith exercise of its discretion. In addition, we annually require each of our directors and executive officers to complete a directors' and officers' questionnaire that elicits information about related party transactions as such term is defined by SEC rules and regulations. These procedures are intended to determine whether any such related party transaction impairs the independence of a director or presents a conflict of interest on the part of a director, employee or officer.

Transactions with Related Parties, Promoters and Certain Control Persons

Director and Officer Indemnification

We have entered into agreements to indemnify our directors and executive officers to the fullest extent permitted under Delaware law. In addition, our certificate of incorporation contains provisions limiting the liability of our directors and our bylaws contain provisions requiring us to indemnify our officers and directors.

Equity-Based Awards

Please see the "Grants of Plan-Based Awards" table and the "Director Compensation" table above for information on stock option and restricted stock unit grants to our directors and named executive officers in fiscal year 2016.

Transactions with Ablecom Technology Inc.

Ablecom Technology Inc.—Ablecom, a Taiwan corporation, together with one of its subsidiaries, Compuware (collectively "Ablecom"), is one of our major contract manufacturers. Ablecom's ownership of Compuware is below 50% but Compuware remains a related party as Ablecom still has significant influence over the operations. Ablecom's chief executive officer, Steve Liang, is the brother of Charles Liang, our President, Chief Executive Officer and Chairman of the board of directors, and owns approximately 0.3% of our common stock. Charles Liang served as a Director of Ablecom during our fiscal 2006, but is no longer serving in such capacity. In addition, Charles Liang and his wife, also an officer of ours, collectively own approximately 10.5% of Ablecom, while Steve Liang and other family members own approximately 36.0% and 36.0% of Ablecom at June 30, 2016 and 2015, respectively.

We have product design and manufacturing services agreements ("product design and manufacturing agreements") and a distribution agreement ("distribution agreement") with Ablecom.

Under the product design and manufacturing agreements, we outsource a portion of our design activities and a significant part of our manufacturing of components such as server chassis to Ablecom. Ablecom agrees to design

products according to our specifications. Additionally, Ablecom agrees to build the tools needed to manufacture the products. We have agreed to pay for the cost of chassis and related product tooling and engineering services and will pay for those items when the work has been completed.

Under the distribution agreement, Ablecom purchases server products from us for distribution in Taiwan. We believe that the pricing and terms under the distribution agreement are similar to the pricing and terms of distribution arrangements we have with similar, third party distributors.

Ablecom's net sales to us and its net sales of our products to others comprise a substantial majority of Ablecom's net sales. For fiscal year 2016, 2015 and 2014, we purchased products from Ablecom totaling \$241,836,000, \$227,562,000 and

Table of Contents

\$201,848,000, respectively. For fiscal year 2016, 2015 and 2014, we sold products to Ablecom totaling \$19,453,000, \$58,013,000 and \$14,576,000, respectively.

Amounts owed to us by Ablecom as of June 30, 2016 and 2015, were \$4,678,000 and \$13,186,000, respectively. Amounts owed to Ablecom by us as of June 30, 2016 and 2015, were \$39,152,000 and \$59,015,000, respectively. In fiscal year 2016, we have paid Ablecom the majority of invoiced dollars between 48 and 90 days of invoice. For the years ended June 30, 2016, 2015 and 2014, we paid \$9,085,000, \$5,851,000 and \$6,906,000, respectively, for tooling assets and miscellaneous costs to Ablecom.

Our exposure to loss as a result of our involvement with Ablecom is limited to (a) potential losses on our purchase orders in the event of an unforeseen decline in the market price and/or demand of our products such that we incur a loss on the sale or cannot sell the products and (b) potential losses on outstanding accounts receivable from Ablecom in the event of an unforeseen deterioration in the financial condition of Ablecom such that Ablecom defaults on its payable to us. Outstanding purchase orders with Ablecom were \$62,782,000 and \$67,261,000 at June 30, 2016 and 2015, respectively, representing the maximum exposure to loss relating to (a) above. We do not have any direct or indirect guarantees of losses of Ablecom.

In May 2012, we and Ablecom jointly established Super Micro Asia Science and Technology Park, Inc. ("Management Company") in Taiwan to manage the common areas shared by us and Ablecom for their separately constructed manufacturing facilities. Each company contributed \$168,000 and own 50% of the Management Company. Although the operations of the Management Company are independent of us, through governance rights, we have the ability to direct the Management Company's business strategies. Therefore, we have concluded that the Management Company is a variable interest entity of us as we are the primary beneficiary of the Management Company. The accounts of the Management Company are consolidated with the accounts of us, and a noncontrolling interest has been recorded for the Ablecom's interests in the net assets and operations of the Management Company. The Management Company had no business operations as of June 30, 2012. In fiscal year 2016, 2015 and 2014, \$20,000, \$(11,000) and \$(6,000) of net income (loss) attributable to Ablecom's interest was included in the Company's general and administrative expenses in the consolidated statements of operations.

Item 14. Principal Accounting Fees and Services

The Audit Committee appointed Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year 2016.

Independent Registered Public Accounting Firm Fees and Services

The following table sets forth the aggregate audit fees billed to us by our independent registered public accounting firm, Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, "Deloitte"), and fees paid to Deloitte for services in the fee categories indicated below during the fiscal years 2016 and 2015. The Audit Committee has considered the scope and fee arrangements for all services provided by Deloitte, taking into account whether the provision of non-audit services is compatible with maintaining Deloitte's independence, and has pre-approved 100% of the services described below.

	Fiscal Year Ended	
	June 30,	June 30,
	2016	2015
Audit Fees(1)	\$2,427,000	\$1,797,000
Audit-Related Fees	—	—
Tax Fees	—	—

Edgar Filing: Super Micro Computer, Inc. - Form 10-K

All Other Fees	—	—
Total	\$2,427,000	\$1,797,000

---

Audit fees consist of the aggregate fees for professional services rendered for the audit of our fiscal years 2016 and (1)2015 consolidated financial statements, review of interim consolidated financial statements and certain statutory audits.

98

---

Table of Contents

Audit Committee Pre-Approval Policies and Procedures

The Audit Committee has determined that all services performed by Deloitte & Touche LLP are compatible with maintaining the independence of Deloitte & Touche LLP. The Audit Committee's policy on approval of services performed by the independent registered public accounting firm is to pre-approve all audit and permissible non-audit services to be provided by the independent registered public accounting firm during the fiscal year. The Audit Committee reviews each non-audit service to be provided and assesses the impact of the service on the firm's independence.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. Financial Statements

See Index to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K, which is incorporated herein by reference.

2. Financial Statement Schedules

All financial statement schedules have been omitted because they are either not applicable or the required information is shown in the consolidated financial statements or notes thereto.

3. Exhibits

See the Exhibit Index which follows the signature page of this Annual Report on Form 10-K, which is incorporated herein by reference.

(b) Exhibits

See Item 15(a)(3) above.

(c) Financial Statement Schedules

See Item 15(a)(2) above.



Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SUPER MICRO COMPUTER, INC.

Date: August 26, 2016 /s/ CHARLES LIANG

Charles Liang

President, Chief Executive Officer and Chairman of the  
Board

(Principal Executive Officer)

100

---

Table of Contents

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Charles Liang and Howard Hideshima, jointly and severally, his attorney-in-fact, each with the full power of substitution, for such person, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might do or could do in person hereby ratifying and confirming all that each of said attorneys-in-fact and agents, or his substitute, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated and on the dates indicated.

Signature	Title	Date
/s/ CHARLES LIANG Charles Liang	President, Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	August 26, 2016
/s/ HOWARD HIDESHIMA Howard Hideshima	Senior Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)	August 26, 2016
/s/ YIH-SHYAN (WALLY) LIAW Yih-Shyan (Wally) Liaw	Senior Vice President of International Sales, Corporate Secretary and Director	August 26, 2016
/s/ CHIU-CHU (SARA) LIU LIANG Chiu-Chu (Sara) Liu Liang	Senior Vice President of Operations, Treasurer and Director	August 26, 2016
/s/ LAURA BLACK Laura Black	Director	August 26, 2016
/s/ MICHAEL S. MCANDREWS Michael S. McAndrews	Director	August 26, 2016
/s/ HWEI-MING (FRED) TSAI Hwei-Ming (Fred) Tsai	Director	August 26, 2016
/s/ SHERMAN TUAN Sherman Tuan	Director	August 26, 2016

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description
3.3	Amended and Restated Certificate of Incorporation of Super Micro Computer, Inc.(1)
3.4	Amended and Restated Bylaws of Super Micro Computer, Inc.(1)
4.1	Specimen Stock Certificate for Shares of Common Stock of Super Micro Computer, Inc.(1)
10.1*	Amended 1998 Stock Option Plan(1)
10.2*	Form of Incentive Stock Option Agreement under 1998 Stock Option Plan(1)
10.3*	Form of Nonstatutory Stock Option Agreement under 1998 Stock Option Plan(1)
10.4*	Form of Nonstatutory Stock Option Agreement outside the 1998 Stock Option Plan(1)
10.5*	2006 Equity Incentive Plan(1)
10.6*	Form of Option Agreement under Super Micro Computer, Inc. 2006 Equity Incentive Plan(1)
10.7*	Form of Restricted Stock Agreement under Super Micro Computer, Inc. 2006 Equity Incentive Plan(1)
10.8*	Form of Restricted Stock Unit Agreement under Super Micro Computer, Inc. 2006 Equity Incentive Plan(1)
10.9*	Form of Directors' and Officers' Indemnity Agreement(1)
10.10*	Offer Letter for Chiu-Chu (Sara) Liu Liang(1)
10.11*	Offer Letter for Alex Hsu(1)
10.12*	Offer Letter for Howard Hideshima(1)
10.13*	Director Compensation Policy(1)
10.14	Product Manufacturing Agreement dated January 8, 2007 between Super Micro Computer, Inc. and Ablecom Technology Inc.(1)
10.15*	Form of Notice of Grant of Stock Option under 2006 Equity Incentive Plan(2)
10.16*	Form of Notice of Grant of Restricted Stock under 2006 Equity Incentive Plan(2)
10.17*	Form of Notice of Grant of Restricted Stock Unit under 2006 Equity Incentive Plan(2)
10.18	Agreement of Purchase and Sale(3)
10.19*	Stock Option Exercise Notice and Restricted Stock Purchase Agreement—Charles Liang(4)
10.20*	Stock Option Exercise Notice and Restricted Stock Purchase Agreement—Chiu-Chu Liang(5)
10.21*	Stock Option Exercise Notice and Restricted Stock Purchase Agreement—Shiow-Meei Liaw(5)
10.22	Agreement of Purchase and Sale of Properties on Fox Lane and Fox Drive, San Jose, California(6)
10.23	Business Loan Agreement dated as of June 17, 2010, by and between Super Micro Computer, Inc. and Bank of America(7)
10.24	Amendment No.1 to Loan Agreement, dated August 15, 2011 between Super Micro Computer, Inc. and Bank of America (9)
10.25	Amendment No. 2 to Loan Agreement, dated October 4, 2011 between Super Micro Computer, Inc. and Bank of America (9)
10.26*	2006 Equity Incentive Plan, as amended(8)
10.27	Purchase and Sale Agreement on Ridder Park Drive, San Jose, California(10)
10.28	Addendum 1 to Purchase and Sale Agreement on Ridder Park Drive, San Jose, California(10)
10.29	Amendment No. 3 to Loan Agreement, dated September 30, 2013 between Super Micro Computer, Inc. and Bank of America(11)
10.30	Summary of Credit Facility, dated November 5, 2013 between Super Micro Computer, Inc. and CTBC Bank (11)
10.31	Extension of Loan Agreement with Bank of America, N.A., dated November 13, 2014(12)
10.32	Summary of Credit Facility, dated December 1, 2014 between Super Micro Computer, Inc. and CTBC Bank (12)
10.33	Amendment No. 4 to Loan Agreement, dated June 19, 2015 between Super Micro Computer, Inc. and Bank of America(13)
10.34	Extension of Loan Agreement with Bank of America, N.A., dated November 13, 2015(14)

10.35 Extension of Credit Agreement with CTBC Bank dated January 29, 2016(15)

---

Table of Contents

10.36	2016 Equity Incentive Plan(16)
10.37	Form of Notice of Grant of Stock Option under 2016 Equity Incentive Plan(17)
10.38	Form of Stock Option Agreement Under 2016 Equity Incentive Plan(17)
10.39	Form of Notice of Grant of Restricted Stock Units under 2016 Equity Incentive Plan(17)
10.40	Form of Restricted Stock Units Agreement under 2016 Equity Incentive Plan(17)
10.41	Extension of Loan Agreement with Bank of America, N.A., dated March 14, 2016(18)
10.42	Extension of Loan Agreement with Bank of America, N.A., dated April 26, 2016(18)
10.43	Summary of Credit Facility, dated April 1, 2016 between Super Micro Computer, Inc. and CTBC Bank(18)
10.44+	Extension of Loan Agreement with Bank of America, N.A., dated May 27, 2016
10.45+	Credit Agreement dated as of June 30, 2016 between Super Micro Computer, Inc. and Bank of America
21.1	Subsidiaries of Super Micro Computer, Inc.(15)
23.1+	Consent of Independent Registered Public Accounting Firm
24.1+	Power of Attorney (included in signature pages)
31.1+	Certification of Charles Liang, President and CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2+	Certification of Howard Hideshima, CFO and Secretary Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1+	Certification of Charles Liang, President and CEO Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(19)
32.2+	Certification of Howard Hideshima, CFO and Secretary Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(19)
101.INS+	XBRL Instance Document
101.SCH+	XBRL Taxonomy Extension Schema Document
101.CAL+	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF+	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB+	XBRL Taxonomy Extension Label Linkbase Document
101.PRE+	XBRL Taxonomy Extension Presentation Linkbase Document

---

+Filed herewith

- Incorporated by reference to the same number exhibit filed with the Registrant's Registration Statement on Form (1)S-1 (Registration No. 333-138370), declared effective by the Securities and Exchange Commission on March 28, 2007.
- (2) Incorporated by reference to the Company's Registration Statement on Form S-8 (Commission File No. 333-142404) filed with the Securities and Exchange Commission on April 27, 2007.
- (3) Incorporated by reference to Exhibit 10.1 from the Company's current report on Form 8-K (Commission File No. 001-33383) filed with the Securities and Exchange Commission on June 29, 2007.
- (4) Incorporated by reference to the Company's Annual Report on Form 10-K (Commission File No. 001-33383) filed with the Securities and Exchange Commission on September 2, 2008.
- (5) Incorporated by reference to the Company's current report on Form 8-K (Commission File No. 001-33383) filed with the Securities and Exchange Commission on December 2, 2008.
- (6) Incorporated by reference to the Company's Quarterly Report on Form 10-Q (Commission File No. 001-33383) filed with the Securities and Exchange Commission on May 7, 2010.
- (7) Incorporated by reference to Exhibit 10.34 from the Company's Annual Report on Form 10-K (Commission File No. 001-33383) filed with the Securities and Exchange Commission on September 7, 2010.
- (8) Incorporated by reference to Appendix A from the Company's Definitive Proxy Statement on Schedule 14A (Commission File No. 001-33383) filed with the Securities and Exchange Commission on January 18, 2011.
- (9) Incorporated by reference to the Company's Quarterly Report on Form 10-Q (Commission File No. 001-33383) filed with the Securities and Exchange Commission on November 7, 2011.

Edgar Filing: Super Micro Computer, Inc. - Form 10-K

- (10) Incorporated by reference to the Company's current report on Form 8-K (Commission File No. 001-33383) filed with the Securities and Exchange Commission on September 24, 2013.
  - (11) Incorporated by reference to the Company's Quarterly Report on Form 10-Q (Commission File No. 001-33383) filed with the Securities and Exchange Commission on November 7, 2013.
  - (12) Incorporated by reference to the Company's Quarterly Report on Form 10-Q (Commission File No. 001-33383) filed with the Securities and Exchange Commission on February 9, 2015.
-

Table of Contents

- (13) Incorporated by reference to the Company's Annual Report on Form 10-K (Commission File No. 001-33383) filed with the Securities and Exchange Commission on September 10, 2015.
- (14) Incorporated by reference to the Company's Quarterly Report on Form 10-Q (Commission File No. 001-33383) filed with the Securities and Exchange Commission on November 16, 2015.
- (15) Incorporated by reference to the Company's Quarterly Report on Form 10-Q (Commission File No. 001-33383) filed with the Securities and Exchange Commission on February 4, 2016.
- (16) Incorporated by reference to the Company's current report on Form 8-K (Commission File No. 001-33383) filed with the Securities and Exchange Commission on March 14, 2016.
- (17) Incorporated by reference to the Company's Form S-8 (Commission File No. 333-210881) filed with the Securities and Exchange Commission on April 22, 2016.
- (18) Incorporated by reference to the Company's Quarterly Report on Form 10-Q (Commission File No. 001-33383) filed with the Securities and Exchange Commission on May 6, 2016.

(19) The certifications attached as Exhibit 32.1 and 32.2 accompany the Annual Report on Form 10-K pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed "filed" by Super Micro Computer, Inc. for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

\*Management contract, or compensatory plan or arrangement