

SYNAPTICS INC
Form 10-Q
February 05, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 27, 2014

Commission file number 000-49602

SYNAPTICS INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

77-0118518
(I.R.S. Employer
Identification No.)

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1251 McKay Drive

San Jose, California 95131

(Address of principal executive offices) (Zip code)

(408) 904-1100

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of Common Stock outstanding at January 30, 2015: 36,713,303

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SYNAPTICS INCORPORATED AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

(unaudited)

| | December 31, 2014 | June 30, 2014 |
|---|------------------------------|--------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 327,546 | \$ 447,205 |
| Accounts receivable, net of allowances of \$1,165 and \$883 at December 31, 2014 and June 30, 2014, respectively | 335,023 | 195,057 |
| Inventories | 145,215 | 82,311 |
| Prepaid expenses and other current assets | 35,196 | 17,858 |
| Total current assets | 842,980 | 742,431 |
| Property and equipment at cost, net of accumulated depreciation of \$59,916 and \$49,482 at December 31, 2014 and June 30, 2014, respectively | 115,145 | 80,849 |
| Goodwill | 214,443 | 61,030 |
| Acquired intangibles, net | 283,349 | 82,111 |
| Non-current other assets | 47,657 | 53,912 |
| | \$ 1,503,574 | \$ 1,020,333 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | \$ 149,535 | \$ 97,109 |
| Accrued compensation | 33,474 | 30,682 |
| Income taxes payable | 11,830 | 12,538 |
| Acquisition-related liabilities | 97,549 | 57,388 |
| Other accrued liabilities | 94,433 | 56,691 |
| Current portion of long-term debt | 7,500 | |
| Total current liabilities | 394,321 | 254,408 |
| Long-term debt, net of issuance costs | 238,099 | |
| Acquisition-related liabilities | 85,626 | 52,734 |
| Deferred tax liability | 57,342 | |
| Other long-term liabilities | 13,609 | 12,034 |

| | | |
|---|--------------|--------------|
| Total liabilities | 788,997 | 319,176 |
| Stockholders' Equity: | | |
| Common stock: | | |
| \$0.001 par value; 120,000,000 shares authorized, 56,997,204 and 55,911,513 shares issued, and 36,662,018 and 36,863,802 shares outstanding, at December 31, 2014 and June 30, 2014, respectively | 57 | 56 |
| Additional paid-in capital | 798,203 | 740,282 |
| Treasury stock: 20,335,186 and 19,047,711 common treasury shares at December 31, 2014 and June 30, 2014, respectively, at cost | (621,027) | (530,422) |
| Accumulated other comprehensive income | 8,105 | 8,560 |
| Retained earnings | 529,239 | 482,681 |
| Total stockholders' equity | 714,577 | 701,157 |
| | \$ 1,503,574 | \$ 1,020,333 |

See accompanying notes to condensed consolidated financial statements (unaudited).

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SYNAPTICS INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

(unaudited)

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|--|--|-------------|--|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| Net revenue | \$ 463,705 | \$ 205,763 | \$ 746,446 | \$ 428,370 |
| Cost of revenue | 336,874 | 111,218 | 499,426 | 224,546 |
| Gross margin | 126,831 | 94,545 | 247,020 | 203,824 |
| Operating expenses: | | | | |
| Research and development | 77,223 | 45,931 | 134,748 | 86,373 |
| Selling, general, and administrative | 22,056 | 22,845 | 52,729 | 43,969 |
| Acquired intangibles amortization | 6,203 | 261 | 6,465 | 523 |
| Change in contingent consideration | (7,121) | 3,430 | (11,623) | 3,688 |
| Total operating expenses | 98,361 | 72,467 | 182,319 | 134,553 |
| Operating income | 28,470 | 22,078 | 64,701 | 69,271 |
| Interest and other income, net | 497 | 476 | 1,121 | 906 |
| Interest expense | (1,212) | (5) | (1,212) | (9) |
| Income before provision for income taxes | 27,755 | 22,549 | 64,610 | 70,168 |
| Provision for income taxes | 7,783 | 5,215 | 18,052 | 17,895 |
| Net income | \$ 19,972 | \$ 17,334 | \$ 46,558 | \$ 52,273 |
| Net income per share: | | | | |
| Basic | \$ 0.55 | \$ 0.51 | \$ 1.26 | \$ 1.56 |
| Diluted | \$ 0.52 | \$ 0.48 | \$ 1.20 | \$ 1.47 |
| Shares used in computing net income per share: | | | | |
| Basic | 36,500 | 33,990 | 36,895 | 33,475 |
| Diluted | 38,248 | 36,059 | 38,882 | 35,586 |

See accompanying notes to condensed consolidated financial statements (unaudited).

Table of Contents**SYNAPTICS INCORPORATED AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands)

(unaudited)

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|--|--|-------------|--|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| Net income | \$ 19,972 | \$ 17,334 | \$ 46,558 | \$ 52,273 |
| Other comprehensive income: | | | | |
| Change in unrealized net gain on investments | 143 | 724 | 214 | 1,291 |
| Reclassification from accumulated other comprehensive income to interest income for accretion of non-current investments | (344) | (254) | (669) | (473) |
| Net current-period other comprehensive income/(loss) | (201) | 470 | (455) | 818 |
| Comprehensive income | \$ 19,771 | \$ 17,804 | \$ 46,103 | \$ 53,091 |

See accompanying notes to condensed consolidated financial statements (unaudited).

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SYNAPTICS INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

| | Six Months Ended December 31, | |
|---|--|-------------|
| | 2014 | 2013 |
| Cash flows from operating activities | | |
| Net income | \$ 46,558 | \$ 52,273 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Share-based compensation costs | 20,223 | 14,664 |
| Depreciation and amortization | 10,519 | 6,727 |
| Acquired intangibles amortization | 49,362 | 2,119 |
| Accretion and remeasurement of contingent consideration liability | (11,623) | 3,688 |
| Deferred taxes | (2,592) | 9,136 |
| Non-cash interest income | (669) | (473) |
| Impairment recovery on investments | (179) | |
| Amortization of debt issuance costs | 252 | |
| Foreign currency remeasurement gain | (7,238) | |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Accounts receivable, net | (10,137) | 19,272 |
| Inventories | (56,590) | 356 |
| Prepaid expenses and other current assets | 22,009 | (3,477) |
| Other assets | 4,797 | (4,060) |
| Accounts payable | (3,372) | (13,163) |
| Accrued compensation | (582) | (2,722) |
| Income taxes payable | (29,813) | (1,341) |
| Other accrued liabilities | 13,478 | 2,775 |
| Net cash provided by operating activities | 44,403 | 85,774 |
| Cash flows from investing activities | | |
| Proceeds from sales of non-current investments | 4,900 | |
| Acquisition of business, net of cash acquired | (293,783) | (19,620) |
| Purchases of property and equipment | (34,285) | (17,142) |
| Net cash used in investing activities | (323,168) | (36,762) |
| Cash flows from financing activities | | |
| Payment of contingent consideration | (7,706) | |
| Purchases of treasury stock | (90,605) | (70,262) |
| Proceeds from issuance of shares | 16,836 | 39,193 |

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| | | |
|---|------------|------------|
| Proceeds from issuance of long-term debt | 245,367 | |
| Payment of debt issuance costs | (400) | |
| Excess tax benefit from share-based compensation | 7,388 | |
| Payroll taxes for deferred stock units | (8,223) | (3,822) |
| Net cash provided by/(used in) financing activities | 162,657 | (34,891) |
| Effect of exchange rate changes on cash and cash equivalents | (3,551) | |
| Net increase/(decrease) in cash and cash equivalents | (119,659) | 14,121 |
| Cash and cash equivalents at beginning of period | 447,205 | 355,303 |
| Cash and cash equivalents at end of period | \$ 327,546 | \$ 369,424 |
| Supplemental disclosures of cash flow information | | |
| Cash paid for taxes | \$ 40,612 | \$ 14,889 |
| <i>Non-cash investing and financing activities:</i> | | |
| Property and equipment received but unpaid | \$ 2,133 | \$ 1,117 |
| Common stock issued in settlement of contingent consideration liability | \$ 21,487 | \$ 37,499 |
| <i>See accompanying notes to condensed consolidated financial statements (unaudited).</i> | | |

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SYNAPTICS INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission, or the SEC, and U.S. generally accepted accounting principles, or U.S. GAAP. However, certain information or footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to SEC rules and regulations. In our opinion, the financial statements include all adjustments, which are of a normal and recurring nature, necessary for the fair presentation of the results of the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the operating results for the full fiscal year or any future period. These financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended June 28, 2014.

The consolidated financial statements include our financial statements and those of our wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated upon consolidation.

Our fiscal year is the 52- or 53-week period ending on the last Saturday in June. Our fiscal 2015 and 2014 years are 52-week periods ending on June 27, 2015 and June 28, 2014, respectively. The quarterly fiscal periods presented in this report were 13-week periods for the three months ended December 27, 2014 and December 28, 2013. For ease of presentation, the accompanying consolidated financial statements have been shown as ending on calendar quarter end dates for all annual, interim, and quarterly financial statement captions, unless otherwise indicated.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, allowance for doubtful accounts, cost of revenue, inventories, loss on purchase commitments, product warranty, share-based compensation costs, provision for income taxes, deferred income tax asset valuation allowances, uncertain tax positions, goodwill, intangible assets, investments, contingent consideration liabilities, and loss contingencies. We base our estimates on historical experience, applicable laws and regulations, and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Foreign Currency Transaction Gains and Losses

We use the U.S. dollar as our functional currency for financial reporting and therefore foreign currency transaction and remeasurement gains and losses are included in results of operations and are primarily the result of revaluing assets and liabilities denominated in a currency other than the functional currency. These foreign currency transactions, which primarily related to a recent acquisition, resulted in a net gain of \$15.1 million in the three months ended December 31, 2014, and were not material in prior periods.

2. Revenue Recognition

We recognize revenue from product sales when there is persuasive evidence that an arrangement exists, delivery has occurred and title has transferred, the price is fixed or determinable, and collection is reasonably assured. We accrue for estimated sales returns, incentives, and other allowances at the time we recognize revenue. Our products contain embedded firmware and software, which together with, or consisting of, our ASIC chip, deliver the essential functionality of our products and, as such, software revenue recognition guidance is not applicable.

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3. Net Income Per Share

The computation of basic and diluted net income per share was as follows (in thousands, except per share data):

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|------------|---------------------------------------|------|-------------------------------------|------|
| | 2014 | 2013 | 2014 | 2013 |
| Numerator: | | | | |