

SILICON STORAGE TECHNOLOGY INC
Form 10-Q
August 07, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2006

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 0-26944

SILICON STORAGE TECHNOLOGY, INC.

(Exact name of Registrant as Specified in its Charter)

California

(State or Other Jurisdiction of
Incorporation or Organization)

77-0225590

(I.R.S. Employer
Identification Number)

1171 Sonora Court, Sunnyvale, CA

(Address of Principal Executive Offices)

94086

(Zip Code)

(408) 735-9110

(Registrant's Telephone Number, including Area Code)

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

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

Large Accelerated filer

Accelerated filer

Non-accelerated filer

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 outstanding of our Common Stock, no par value, as of the latest practicable date, July 31, 2006: 103,198,374.

SILICON STORAGE TECHNOLOGY, INC.

FORM 10-Q: QUARTER ENDED JUNE 30, 2006
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PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

SILICON STORAGE TECHNOLOGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)
(in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30, 2005	2006	June 30, 2005	2006
Net revenues:				
Product revenues - unrelated parties	\$ 36,872	\$ 40,775	\$ 74,493	\$ 78,807
Product revenues - related parties	48,010	58,163	89,659	120,434
Technology licensing	8,388	8,791	15,331	17,641
Technology licensing - related parties	29		131	1,378
Total net revenues	93,299	107,729	179,614	218,260
Cost of revenues:				
Cost of revenues - unrelated parties	33,268	29,259	65,709	57,074
Cost of revenues - related parties	48,769	51,096	90,050	99,899
Total cost of revenues	82,037	80,355	155,759	156,973
Gross profit	11,262	27,374	23,855	61,287
Operating expenses:				
Research and development	13,086	13,093	25,051	28,260
Sales and marketing	7,006	7,042	14,346	15,203
General and administrative	7,123	5,769	13,825	11,806
Other operating expenses	2,911		2,911	
Total operating expenses	30,126	25,904	56,133	55,269
Income (loss) from operations	(18,864)	1,470	(32,278)	6,018
Other income (expense), net	1,014	1,056	1,215	1,495
Interest expense	(37)	(57)	(58)	(136)
Gain on sale of equity investments				12,206
Impairment of equity investments				(3,523)
Income (loss) before provision for (benefit from) income taxes and minority interest	(17,887)	2,469	(31,121)	16,060
Provision for income taxes	1,693	1,014	2,440	3,315
Minority interest	7		(77)	
Net income (loss)	\$ (19,587)	\$ 1,455	\$ (33,484)	\$ 12,745
Net income (loss) per share - basic	\$ (0.19)	\$ 0.01	\$ (0.33)	\$ 0.12
Shares used in per share calculation - basic	102,201	103,178	100,010	103,159
Net income (loss) per share - diluted	\$ (0.19)	\$ 0.01	\$ (0.33)	\$ 0.12
Shares used in per share calculation - diluted	102,201	104,529	100,010	104,634

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

SILICON STORAGE TECHNOLOGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)
(in thousands)

	December 31, 2005	June 30, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 77,382	\$ 87,798
Short-term available-for-sale investments	1,008	28,371
Trade accounts receivable-unrelated parties, net of allowance for doubtful accounts of \$758 at December 31, 2005 and \$1,082 at June 30, 2006	21,378	21,356
Trade accounts receivable-related parties	55,858	37,969
Inventories	108,343	94,433
Other current assets	13,109	13,194
Total current assets	277,078	283,121
Property and equipment, net		
Long-term available-for-sale investments	19,415	17,675
Equity investments, GSMC	39,057	22,500
Equity investments, others	83,150	83,150
Goodwill	12,962	12,636
Intangible assets, net	29,637	29,637
Other assets	11,816	11,545
Total assets	\$ 477,837	\$ 467,362
LIABILITIES		
Current liabilities:		
Notes payable, current portion	\$ 39	\$ 218
Borrowing under line of credit facility	3,000	3,000
Trade accounts payable-unrelated parties	48,660	32,340
Trade accounts payable-related parties	21,867	21,791
Accrued expenses and other liabilities	17,318	21,552
Deferred revenue	4,493	4,090
Total current liabilities	95,377	82,991
Other liabilities	2,627	1,880
Total liabilities	98,004	84,871
Commitments (Note 6) and Contingencies (Note 7)		
SHAREHOLDERS EQUITY		
Preferred stock, no par value:		
Authorized: 7,000 shares Series A Junior Participating Preferred Stock, no par value Designated: 450 shares Issued and outstanding: none		
Common stock, no par value:		
Authorized: 250,000 shares Issued and outstanding: 102,827 shares at December 31, 2005 and 103,193 shares at June 30, 2006	377,027	382,203
Accumulated other comprehensive income	31,780	16,517
Accumulated deficit	(28,974)	(16,229)
Total shareholders equity	379,833	382,491

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Total liabilities and shareholders' equity	\$ 477,837	\$ 467,362
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The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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SILICON STORAGE TECHNOLOGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(in thousands)

	Six Months Ended June 30,	
	2005	2006
Cash flows from operating activities:		
Net income (loss)	\$ (33,484)	\$ 12,745
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,671	4,982
Purchased in process research and development	1,661	
Stock-based compensation expense		3,802
Provision (credits) for doubtful accounts receivable	57	323
Provision for sales returns	1,689	421
Provision for excess and obsolete inventories, write-down of inventories and adverse purchase commitments	23,678	8,446
Loss in equity interest	260	28
Impairment loss on equity investment		3,523
Gain on sale of equity investments		(12,206)
(Gain) loss on disposal of equipment	30	(6)
Minority interest	(77)	
Changes in operating assets and liabilities:		
Trade accounts receivable-unrelated parties	4,802	(739)
Trade accounts receivable-related parties	4,138	17,906
Inventories	(33,245)	5,017
Other current and non-current assets	3,196	(2,681)
Trade accounts payable-unrelated parties	(17,445)	(15,880)
Trade accounts payable-related parties	(4,017)	(76)
Accrued expenses and other liabilities	(4,040)	4,082
Deferred revenue	572	(403)
Net cash provided by (used in) operating activities	(47,554)	29,284