

ALPHA & OMEGA SEMICONDUCTOR Ltd
Form 10-Q
May 09, 2014

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 March 31, 2014

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 001-34717

Alpha and Omega Semiconductor Limited
(Exact name of Registrant as Specified in its Charter)

Bermuda
(State or Other Jurisdiction of Incorporation or Organization)

77-0553536
(I.R.S. Employer Identification Number)

Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda
(Address of Principal Registered Offices including Zip Code)

(408) 830-9742
(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 smaller reporting company. See 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 Smaller reporting company

(Do not check if a 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 common shares outstanding as of April 30, 2014: 26,132,654.

Alpha and Omega Semiconductor Limited
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 Fiscal Third Quarter Ended March 31, 2014
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ALPHA AND OMEGA SEMICONDUCTOR LIMITED
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands except par value per share)

	March 31, 2014	June 30, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 110,634	\$ 92,406
Restricted cash	203	204
Accounts receivable, net	37,151	38,298
Inventories	59,802	68,339
Deferred income tax assets	1,701	3,030
Other current assets	3,736	3,578
Total current assets	213,227	205,855
Property, plant and equipment, net	123,686	138,111
Intangible assets, net	213	496
Goodwill	269	269
Deferred income tax assets - long term	10,751	10,823
Other long-term assets	1,618	767
Total assets	\$ 349,764	\$ 356,321
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short term debt	\$ 3,107	\$ 3,821
Accounts payable	27,949	31,738
Accrued liabilities	16,910	14,571
Income taxes payable	1,656	1,472
Deferred margin	629	622
Capital leases	453	1,267
Total current liabilities	50,704	53,491
Long-term debt	11,429	13,571
Income taxes payable - long term	2,383	3,692
Deferred income tax liabilities	2,164	2,613
Capital leases - long term	83	195
Deferred rent	1,187	1,308
Total liabilities	67,950	74,870
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Preferred shares, par value \$0.002 per share:		
Authorized: 10,000 shares, issued and outstanding: none at March 31, 2014 and June 30, 2013	—	—
Common shares, par value \$0.002 per share:		
Authorized: 50,000 shares, issued and outstanding: 26,345 shares and 26,125 shares at March 31, 2014 and 25,882 shares and 25,656 shares at June 30, 2013	53	51
	(1,973) (2,054
)

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Treasury shares at cost, 220 shares at March 31, 2014 and 226 shares at June 30, 2013

Additional paid-in capital	171,524	168,352
Accumulated other comprehensive income	975	957
Retained earnings	111,235	114,145
Total shareholders' equity	281,814	281,451
Total liabilities and shareholders' equity	\$349,764	\$356,321

See accompanying notes to these condensed consolidated financial statements.

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ALPHA AND OMEGA SEMICONDUCTOR LIMITED
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (Unaudited, in thousands except per share data)

	Three Months Ended March		Nine Months Ended March	
	2014	2013	2014	2013
Revenue	\$75,405	\$75,015	\$235,791	\$260,224
Cost of goods sold	63,095	69,770	192,711	208,852
Gross profit	12,310	5,245	43,080	51,372
Operating expenses				
Research and development	5,977	6,876	17,796	20,675
Selling, general and administrative	9,256	8,917	25,505	26,536
Impairment of long-lived assets	—	2,557	—	2,557
Total operating expenses	15,233	18,350	43,301	49,768
Operating income (loss)	(2,923)	(13,105)	(221)	1,604
Interest income	52	22	90	59
Interest expense	(62)	(93)	(210)	(282)
Income (loss) before income taxes	(2,933)	(13,176)	(341)	1,381
Income tax expense (benefit)	361	(3)	2,486	2,894
Net loss	\$(3,294)	\$(13,173)	\$(2,827)	\$(1,513)
Net loss per share				
Basic	\$(0.13)	\$(0.52)	\$(0.11)	\$(0.06)
Diluted	\$(0.13)	\$(0.52)	\$(0.11)	\$(0.06)
Weighted average number of common shares used to compute net loss per share				
Basic	26,067	25,467	25,865	25,266
Diluted	26,067	25,467	25,865	25,266

See accompanying notes to these condensed consolidated financial statements.

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ALPHA AND OMEGA SEMICONDUCTOR LIMITED
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
 (Unaudited, in thousands)

	Three Months Ended March		Nine Months Ended March	
	31,		31,	
	2014	2013	2014	2013
Net loss	\$ (3,294	) \$ (13,173	) \$ (2,827	) \$ (1,513
Foreign currency translation adjustment	(31	) (48	) 18	7
Total comprehensive loss	\$ (3,325	) \$ (13,221	) \$ (2,809	) \$ (1,506

See accompanying notes to these condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Nine Months Ended March 31,	
	2014	2013
Cash flows from operating activities		
Net loss	\$(2,827	) \$(1,513
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	20,577	21,872
Amortization	283	429
Allowance for doubtful accounts	(363) —
Share-based compensation expense	2,175	3,576
Deferred income taxes, net	952	510
(Gain) loss on disposal of property and equipment	(120	) 138
Impairment of long-lived assets	—	2,557
Changes in assets and liabilities:		
Accounts receivable	1,509	9,038
Inventories	8,538	(1,315
Other current and long-term assets	(1,008	) 602
Accounts payable	(3,683	) 5,442
Income taxes payable	(1,125	) 633
Accrued and other liabilities	2,053	(5,716
Net cash provided by operating activities	26,961	36,253
Cash flows from investing activities		
Purchases of property and equipment	(6,462	) (14,046
Proceeds from sale of property and equipment	244	—
Restricted cash released	1	35
Net cash used in investing activities	(6,217	) (14,011
Cash flows from financing activities		
Proceeds from exercise of stock options and ESPP	1,279	2,255
Payment for repurchase of common shares	—	(5
Proceeds from borrowings	—	250
Repayments of borrowings	(2,857	) (2,143
Principal payments on capital leases	(927	) (726
Net cash used in financing activities	(2,505	) (369
Effect of exchange rate changes on cash and cash equivalents	(11	) 1
Net increase in cash and cash equivalents	18,228	21,874
Cash and cash equivalents at beginning of period	92,406	82,166
Cash and cash equivalents at end of period	\$110,634	\$104,040
Supplemental disclosures of non-cash investing and financing information:		
Property and equipment purchased but not yet paid	\$1,635	\$3,430
Re-issuance of treasury stock	\$83	\$153

See accompanying notes to these condensed consolidated financial statements.

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ALPHA AND OMEGA SEMICONDUCTOR LIMITED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. The Company and Significant Accounting Policies

The Company

Alpha and Omega Semiconductor Limited and its subsidiaries (the "Company," "AOS," "we" or "us") design, develop and supply a broad range of power semiconductors. The Company's portfolio of products targets high-volume applications, including portable computers, flat panel TVs, LED lighting, smart phones, battery packs, consumer and industrial motor controls and power supplies for TVs, computers, servers and telecommunications equipment. The Company conducts its operations primarily in the United States of America ("USA"), Hong Kong, Macau, China, Taiwan, Korea and Japan.

Basis of Preparation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information and with the instructions to Article 10 of Securities and Exchange Commission Regulation S-X, as amended. They do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with U.S. GAAP for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2013. All significant intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, all adjustments (consisting of normal recurring adjustments and accruals) considered necessary for a fair presentation of the results of operations for the period presented have been included in the interim periods. Operating results for the three and nine months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2014. The condensed consolidated balance sheet at June 30, 2013 is derived from the audited financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with U.S. GAAP requires the Company to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. To the extent there are material differences between these estimates and actual results, the Company's condensed consolidated financial statements will be affected. On an ongoing basis, the Company evaluates the estimates, judgments and assumptions including those related to stock rotation returns, price adjustments, allowance for doubtful accounts, inventory reserves, warranty accrual, income taxes, share-based compensation, variable interest entities, and useful lives for property, plant and equipment and intangible assets.

Fair Value of Financial Instruments

The fair value of cash equivalents are based on observable market prices and have been categorized in Level 1 in the fair value hierarchy. Cash equivalents consist primarily of short term bank deposits. The carrying values of financial instruments such as cash and cash equivalents, accounts receivable and accounts payable approximate their carrying values due to their short-term maturities. The carrying value of the Company's debt is considered a reasonable estimate of fair value which is estimated by considering the current rates available to the Company for debt of the same remaining maturities, structure and terms of the debts.

Impairment of Long-Lived Assets

Long-lived assets or asset groups are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable. Factors that would necessitate an impairment assessment include a significant decline in the observable market value of an asset, a significant change in the extent or manner in which an asset is used, or any other significant adverse change that would indicate that the carrying amount of an asset or group of assets may not be recoverable. Where such factors indicate potential impairment, the recoverability of an asset or asset group is assessed by determining if the carrying value of the asset or asset group

exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life. The impairment loss is measured based on the difference between the carrying amount and estimated fair value.

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ALPHA AND OMEGA SEMICONDUCTOR LIMITED
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The Company's accumulated other comprehensive income (loss) consists of cumulative foreign currency translation adjustments. Total comprehensive income (loss) is presented in the condensed consolidated statements of comprehensive income (loss).

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2013-11, Income Taxes (Topic 740) Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The new guidance requires the netting of unrecognized tax benefits ("UTBs") against a deferred tax asset for a loss or other carryforward that would apply in settlement of the uncertain tax positions. Under the new standard, UTBs will be netted against all available same-jurisdiction loss or other tax carryforwards that would be utilized, rather than only against carryforwards that are created by the UTBs. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The ASU should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The Company does not expect the adoption of this guidance to have any significant impact on the Company's condensed consolidated financial statements.

2. Net Loss Per Share

The following table presents the calculation of basic and diluted net loss per share:

	Three Months Ended March 31, 2014		Nine Months Ended March 31, 2013	
	(in thousands, except per share data)			
Numerator:				
Net loss	\$(3,294)	\$(13,173)	\$(2,827)	\$(1,513)
Denominator:				
Basic:				
Weighted average number of common shares used to compute basic net loss per share	26,067	25,467	25,865	25,266
Diluted:				
Weighted average number of common shares used to compute basic net loss per share	26,067	25,467	25,865	25,266
Effect of potentially dilutive securities:				
Stock options, RSUs and ESPP shares	—	—	—	—
Weighted average number of common shares used to compute diluted net loss per share	26,067	25,467	25,865	25,266
Net loss per share:				
Basic	\$(0.13)	\$(0.52)	\$(0.11)	\$(0.06)
Diluted	\$(0.13)	\$(0.52)	\$(0.11)	\$(0.06)

ALPHA AND OMEGA SEMICONDUCTOR LIMITED
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

The following potential dilutive securities were excluded from the computation of diluted net loss per share as their effect would have been anti-dilutive:

	Three Months Ended March		Nine Months Ended March	
	31, 2014	2013	31, 2014	2013
	(in thousands)			
Employee stock options and RSUs	3,660	4,119	3,907	3,218
ESPP to purchase common shares	539	858	609	453
Total potential dilutive securities	4,199	4,977	4,516	3,671

3. Concentration of Credit Risk and Significant Customers

The Company manages its credit risk associated with exposure to distributors and direct customers on outstanding accounts receivable through the application of credit approvals, credit ratings and other monitoring procedures. In some instances, the Company also obtains letters of credit from certain customers.

Credit sales, which are mainly on credit terms of 30 to 60 days, are only made to customers who meet the Company's credit requirements, while sales to new customers or customers with low credit ratings are usually made on an advance payment basis. The Company considers its financial assets to be of good credit quality because its key distributors and direct customers have long-standing business relationships with the Company and the Company has not experienced any significant bad debt write-offs of accounts receivable in the past. The Company closely monitors the aging of accounts receivable from its distributors and direct customers, and regularly reviews their financial positions, when available.

Summarized below are individual customers whose revenue or accounts receivable balances were 10% or higher than the respective total consolidated amounts:

	Three Months Ended March		Nine Months Ended March		
	31, 2014	2013	31, 2014	2013	
Percentage of revenue					
Customer A	20.1	% 21.4	% 21.1	% 23.2	%
Customer B	44.9	% 45.5	% 43.8	% 43.5	%
Customer C	11.2	% 10.8	% 12.0	% 12.0	%
			March 31,	June 30,	
Percentage of accounts receivable			2014	2013	
Customer A			21.6	% 33.8	%
Customer B			34.6	% 22.6	%
Customer C			15.9	% 19.9	%

4. Balance Sheet Components

Accounts receivable:

	March 31, 2014	June 30, 2013	
	(in thousands)		
Accounts receivable	\$50,733	\$52,202	
Less: Allowance for price adjustments	(13,552)	(13,152))
Less: Allowance for doubtful accounts	(30)	(752))
Accounts receivable, net	\$37,151	\$38,298	

Inventories:

ALPHA AND OMEGA SEMICONDUCTOR LIMITED
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

	March 31, 2014 (in thousands)	June 30, 2013
Raw materials	\$17,034	\$17,248
Work in-process	35,929	38,618
Finished goods	6,839	12,473
	\$59,802	\$68,339
Property, plant and equipment, net:		
	March 31, 2014 (in thousands)	June 30, 2013
Land	\$4,950	\$4,950
Building	4,106	4,106
Manufacturing machinery and equipment	159,963	156,958
Equipment and tooling	10,453	10,356
Computer equipment and software	17,152	16,140
Office furniture and equipment	1,618	1,559
Leasehold improvements	24,674	24,068
	222,916	218,137
Less: Accumulated depreciation	(107,737)	(87,180)
	115,179	130,957
Equipment and construction in progress	8,507	7,154
Property, plant and equipment, net	\$123,686	\$138,111
Other long-term assets:		
	March 31, 2014 (in thousands)	June 30, 2013
Prepayments for property and equipment	\$1,089	\$77
Investment in a privately held company	100	100
Deferred debt issuance cost	21	91
Office leases deposits	408	499
	\$1,618	\$767
Accrued liabilities:		

ALPHA AND OMEGA SEMICONDUCTOR LIMITED
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

	March 31, 2014	June 30, 2013
	(in thousands)	
Accrued salaries and wages	\$4,102	\$3,079
Accrued vacation	1,398	2,078
Accrued bonuses	946	880
Warranty accrual	1,181	1,428
Stock rotation accrual	2,794	1,572
Accrued professional fees	731	918
ESPP payable	767	353
Customer deposits	107	123
Other accrued expenses	4,884	4,140
	\$16,910	\$14,571

ALPHA AND OMEGA SEMICONDUCTOR LIMITED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The activities in the warranty accrual, included in accrued liabilities, are as follows:

	Nine Months Ended March 31,	
	2014	2013
	(in thousands)	
Beginning balance	\$ 1,428	