NETLOGIC MICROSYSTEMS INC
Form 10-Q
August 06, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Transition Period from ________ to ________

Commission File Number: 000-50838

NETLOGIC MICROSYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**77-0455244**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1875 Charleston Rd.

Mountain View, CA 94043

(650) 961-6676

(Address and telephone number of principal executive offices)

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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or 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.

Large accelerated filer ¨	Accelerated filer x
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 x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding at July 31, 2008
Common Stock, $0.01 par value per share	**21,722,308 shares**

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PART I: FINANCIAL INFORMATION

Item 1. ***Financial Statements***

NETLOGIC MICROSYSTEMS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS)

(UNAUDITED)

	June 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 73,678	$ 50,689
Accounts receivables, net	14,654	14,838
Inventories	16,085	12,938
Prepaid expenses and other current assets	14,257	12,702
Total current assets	118,674	91,167
Property and equipment, net	5,731	5,745
Goodwill	53,758	55,422
Intangible assets, net	46,187	52,837
Other assets	105	112
Total assets	$ 224,455	$ 205,283
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 10,184	$ 7,094
Accrued liabiliites	11,580	13,286
Deferred margin	2,143	317
Software license and other obligations, current	1,069	2,528
Total current liabilities	24,976	23,225
Software license and other obligations, long-term	356	
Other liabilities	11,138	10,170
Total liabilities	36,470	33,395
Stockholders equity:		
Common stock and additional paid-in capital	264,114	251,454
Accumulated other comprehensive loss	(30)	(8)
Accumulated deficit	(76,099)	(79,558)
Total stockholders equity	187,985	171,888
Total liabilities and stockholders equity	$ 224,455	$ 205,283

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

NETLOGIC MICROSYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT FOR PER SHARE AMOUNTS)

(UNAUDITED)

	Three months ended June 30,		Six months ended June 30,	
	2008	**2007**	**2008**	**2007**
Revenue	$ 36,543	$ 25,835	$ 70,723	$ 49,246
Cost of revenue	15,982	9,249	31,365	18,100
Gross profit	20,561	16,586	39,358	31,146
Operating expenses:				
Research and development	12,357	10,886	24,563	20,934
Selling, general and administrative	6,245	4,561	12,709	8,521
Total operating expenses	18,602	15,447	37,272	29,455
Income from operations	1,959	1,139	2,086	1,691
Interest and other income, net	258	1,291	745	2,462
Income before income taxes	2,217	2,430	2,831	4,153
Provision for (benefit from) income taxes	(115)	92	(628)	178
Net income	$ 2,332	$ 2,338	$ 3,459	$ 3,975
Net income per share-Basic	$ 0.11	$ 0.11	$ 0.16	$ 0.19
Net income per share-Diluted	$ 0.10	$ 0.11	$ 0.16	$ 0.18
Shares used in calculation-Basic	21,390	20,691	21,277	20,548
Shares used in calculation-Diluted	22,529	21,773	22,214	21,628

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

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NETLOGIC MICROSYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

(UNAUDITED)

	Six months ended June 30, 2008	Six months ended June 30, 2007
Cash flows from operating activities:		
Net income	$ 3,459	$ 3,975
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,485	2,618
Loss on disposal of property and equipment	92	
Accretion of discount on debt securities		(694)
Stock-based compensation	6,975	6,815
Provision for (recovery of) allowance for doubtful accounts	30	(25)
Provision for inventory reserves	649	327
Tax benefit from stock-based awards		(16)
Changes in assets and liabilities:		
Accounts receivable	319	(163)
Inventories	(1,961)	605
Prepaid expenses and other assets	(1,638)	(498)
Accounts payable	3,090	(22)
Accrued liabilities	(1,706)	344
Deferred margin	1,825	154
Other liabilities	574	(8)
Net cash provided by operating activities	20,193	13,412
Cash flows from investing activities:		
Maturities and sales of short-term investments		22,636
Purchase of short-term investments		(13,935)
Purchase of property and equipment	(601)	(1,177)
Net cash provided by (used in) investing activities	(601)	7,524
Cash flows from financing activities:		
Proceeds from issuance of common stock	5,676	4,236
Payment of software license obligations	(2,257)	(2,238)
Tax benefit from stock-based awards		16
Net cash provided by financing activities	3,419	2,014
Effects of exchange rate on cash and cash equivalents	(22)	15
Net increase in cash and cash equivalents	22,989	22,965
Cash and cash equivalents at the beginning of period	50,689	50,752
Cash and cash equivalents at the end of period	$ 73,678	$ 73,717

Supplemental disclosures of non-cash investing and financing activities:				
Software license obligations	$	1,312	$	

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

NetLogic Microsystems, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of NetLogic Microsystems, Inc. (we, our and the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America and with the instructions for Form 10-Q and Regulation S-X statements. Accordingly, they do not include all of the information and notes required for complete financial statements. In the opinion of management, all adjustments, consisting of only normal recurring items, considered necessary for a fair statement of the results of operations for the periods are shown.

These unaudited financial statements should be read in conjunction with the audited financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2007, and our Form 10-Q for the three months ended March 31, 2008. Operating results for the six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

Significant Accounting Policies and Estimates

The preparation of our unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We based these estimates and assumptions on historical experience and evaluate them on an on-going basis to help ensure they remain reasonable under current conditions. Actual results could differ from those estimates. During the six months ended June 30, 2008, there were no significant changes to the significant accounting policies and estimates discussed in our 2007 annual report on Form 10-K with the exception of those discussed below.

Adoption of Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board, or FASB, issued SFAS No. 157, *Fair Value Measurement*. SFAS No. 157 provides a framework that clarifies the fair value measurement objective within GAAP and its application under the various accounting standards where fair value measurement is allowed or required. Under SFAS No. 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. SFAS No. 157 requires fair value measurements to be separately disclosed by level within the fair value hierarchy. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. However, in February 2008, FASB Staff Position, or FSP, No. 157-b was issued which delayed the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The FSP partially defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, including interim periods within that fiscal year for items within the scope of the FSP. Effective January 1, 2008, the Company adopted SFAS No. 157 except as it applies to those nonfinancial assets and nonfinancial liabilities within the scope of FSP No. 157-b. The partial adoption of SFAS No. 157 did not have a material impact on the Company s financial position and results of operations. The Company is currently assessing the impact of the adoption of SFAS No. 157 as it relates to nonfinancial assets and nonfinancial liabilities and has not yet determined the impact that the adoption will have on its financial position and results of operations. Refer to Note 7, *Fair Value Measurements*, for further information.

Recently Issued Accounting Pronouncements

In April 2008, the FASB issues FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). FSP 142-3 removes the requirement under SFAS No. 142, Goodwill and Other Intangible Assets to consider whether an intangible asset can be renewed without substantial cost or material modifications to the existing terms and conditions, and replaces it with a requirement that an entity consider its own historical experience in renewing similar arrangements, or a consideration of market participant assumptions in the absence of historical experience. FSP 142-3 also requires entities to disclose information that enables the users of financial statements to assess the extent to which the expected future cash flows associated with the asset are affected by the entity s intent and or ability to renew or extend the arrangement. FSP 142-3 is effective January 1, 2009 on a prospective basis. We are currently assessing FSP No. FAS 142-3 and have not yet determined the impact, if any, that the adoption of FSP No. FAS 142-3 will have on our financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141(R)), which replaces FAS 141. SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is to be applied prospectively to business combinations for which the acquisition date is on or after an entity s fiscal year that begins after December 15, 2008. We will assess the impact of SFAS 141(R) if and when a future acquisition occurs.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* an amendment of ARB No. 51 (SFAS 160). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent s equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent s ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. We are currently assessing SFAS No. 160 and have not yet determined the impact, if any, that the adoption of SFAS No. 160 will have on our financial position, results of operations and cash flows.

2. Basic and Diluted Net Income Per Share

We compute net income per share in accordance with SFAS No. 128, Earnings per Share. Basic net income per share is computed by dividing net income attributable to common stockholders (numerator) by the weighted average number of common shares outstanding (denominator) during the period. Diluted net income per share gives effect to all dilutive potential common shares outstanding during the period including stock options and warrants using the treasury stock method.

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The following is a reconciliation of the weighted average number of common shares used to calculate basic net income per share to the weighted average common and potential common shares used to calculate diluted net income per share for the three and six months ended June 30, 2008 and 2007 (in thousands, except per share data):

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Numerator:				
Net income	$ 2,332	$ 2,338	$ 3,459	$ 3,975
Denominator:				
Weighted-average common shares outstanding	21,424	20,727	21,311	20,584
Less: shares subject to repurchase	(34)	(36)	(34)	(36)