Super Micro Computer, Inc.
Form 10-Q
November 07, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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 September 30, 2013

or

o 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 incorporation or organization)	(IRS Employer Identification Number)

980 Rock Avenue
San Jose, CA 95131
(Address of principal executive offices)
(408) 503-8000
(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 x 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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 o (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

As of October 29, 2013, there were 42,761,172 shares of the registrant's common stock, $0.001 par value, outstanding, which is the only class of common or voting stock of the registrant issued.

Table of Contents

SUPER MICRO COMPUTER, INC.

QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2013

TABLE OF CONTENTS

Table of Contents

PART I: FINANCIAL INFORMATION

Item 1.
SUPER MICRO COMPUTER, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)
(unaudited)

	September 30, 2013	June 30, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$111,458	$93,038
Accounts receivable, net of allowances of $1,403 and $1,966 at September 30, 2013 and June 30, 2013, respectively (including amounts receivable from a related party of $1,077 and $974 at September 30, 2013 and June 30, 2013, respectively)	134,056	149,340
Inventory	254,310	254,170
Deferred income taxes-current	14,982	15,786
Prepaid income taxes	4,493	4,039
Prepaid expenses and other current assets	4,923	6,819
Total current assets	524,222	523,192
Long-term investments	2,637	2,637
Property, plant and equipment, net	96,767	95,912
Deferred income taxes-noncurrent	7,988	7,275
Other assets	4,185	3,241
Total assets	$635,799	$632,257
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable (including amounts due to a related party of $42,500 and $50,448 at September 30, 2013 and June 30, 2013, respectively)	$165,660	$172,855
Accrued liabilities	31,650	34,122
Income taxes payable	7,274	6,049
Short-term debt and current portion of long-term debt	13,699	28,638
Total current liabilities	218,283	241,664
Long-term debt-net of current portion	21,050	6,533
Other long-term liabilities	10,502	10,336
Total liabilities	249,835	258,533
Commitments and contingencies (Note 10)		
Stockholders’ equity:		
Common stock and additional paid-in capital, $0.001 par value:		
Authorized shares: 100,000,000		
Issued shares: 43,151,300 and 42,744,500 at September 30, 2013 and June 30, 2013, respectively	162,255	157,712
Treasury stock (at cost), 445,028 shares at September 30, 2013 and June 30, 2013	(2,030)	(2,030)
Accumulated other comprehensive loss	(65)	(69)
Retained earnings	225,629	217,930
Total Super Micro Computer, Inc. stockholders' equity	385,789	373,543

Noncontrolling interest	175	181
Total stockholders' equity	385,964	373,724
Total liabilities and stockholders' equity	$635,799	$632,257

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

	Three Months Ended September 30,	
	2013	2012
Net sales (including related party sales of $3,528 and $2,893 in the three months ended September 30, 2013 and 2012, respectively)	$309,016	$270,707
Cost of sales (including related party purchases of $45,317 and $49,257 in the three months ended September 30, 2013 and 2012, respectively)	262,224	235,692
Gross profit	46,792	35,015
Operating expenses:		
Research and development	20,236	18,221
Sales and marketing	8,865	8,766
General and administrative	5,648	6,346
Total operating expenses	34,749	33,333
Income from operations	12,043	1,682
Interest and other income, net	17	15
Interest expense	(195)	(155)
Income before income tax provision	11,865	1,542
Income tax provision	4,166	643
Net income	$7,699	$899
Net income per common share:		
Basic	$0.18	$0.02
Diluted	$0.17	$0.02
Weighted-average shares used in calculation of net income per common share:		
Basic	42,496	41,667
Diluted	44,602	44,174

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

	Three Months Ended September 30,	
	2013	2012
Net income	$7,699	$899
Other comprehensive income, net of tax:		
Foreign currency translation gain	4	4
Unrealized gains on investments	—	—
Total other comprehensive income	4	4
Comprehensive income	$7,703	$903

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,	
	2013	2012
OPERATING ACTIVITIES:		
Net income	$7,699	$899
Reconciliation of net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,393	1,955
Stock-based compensation expense	2,589	2,903
Excess tax benefits from stock-based compensation	(882)	(784)
Allowance for doubtful accounts	849	137
Provision for inventory	4	2,910
Deferred income taxes	91	(2,870)
Exchange loss	241	202
Changes in operating assets and liabilities:		
Accounts receivable, net (including changes in related party balances of $(103) and $514 during the three months ended September 30, 2013 and 2012, respectively)	14,435	(10,910)
Inventory	(144)	10,537
Prepaid expenses and other assets	960	297
Accounts payable (including changes in related party balances of $(7,948) and $(3,570) during the three months ended September 30, 2013 and 2012, respectively)	(7,732)	(34,688)
Income taxes payable, net	1,841	1,250
Accrued liabilities	(3,207)	1,436
Other long-term liabilities	170	172
Net cash provided by (used in) operating activities	18,307	(26,554)
INVESTING ACTIVITIES:		
Restricted cash	(14)	(1)
Purchases of property, plant and equipment	(1,948)	(919)
Net cash used in investing activities	(1,962)	(920)
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	1,535	359
Minimum tax withholding paid on behalf of an officer for restricted stock awards	(651)	(1,022)
Excess tax benefits from stock-based compensation	882	784
Proceeds from debt	—	20,641
Repayment of debt	(700)	(15,573)
Payment of obligations under capital leases	(5)	(9)
Advance (payments) under receivable financing arrangements	736	(599)
Contributions from noncontrolling interests	—	168
Net cash provided by financing activities	1,797	4,749
Effect of exchange rate fluctuations on cash	278	222
Net increase (decrease) in cash and cash equivalents	18,420	(22,503)
Cash and cash equivalents at beginning of period	93,038	80,826
Cash and cash equivalents at end of period	$111,458	$58,323
Supplemental disclosure of cash flow information:		
Cash paid for interest	$200	$257

Cash paid for taxes, net of refunds	$1,807	$1,974
Non-cash investing and financing activities:		
Accrued costs for property, plant and equipment purchases	$1,836	$1,166

See accompanying notes to condensed consolidated financial statements.

Table of Contents

SUPER MICRO COMPUTER, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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 high-performance, high-efficiency 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 and China.

Basis of Presentation
The condensed consolidated financial statements reflect the condensed consolidated balance sheets, results of operations, comprehensive income 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 unaudited condensed consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”) and include the accounts of the Company and its wholly-owned subsidiaries. Certain information and footnote disclosures normally included in financial statements prepared in accordance with United States generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the fiscal year ended June 30, 2013 included in its Annual Report on Form 10-K, as filed with the SEC (the “Annual Report”).

The unaudited condensed consolidated financial statements included herein reflect all adjustments, including normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the consolidated financial position, results of operations and cash flows for the periods presented. The condensed consolidated results of operations for the three months ended September 30, 2013 are not necessarily indicative of the results that may be expected for future quarters or for the fiscal year ending June 30, 2014.

As of September 30, 2013, the Company contributed $168,000 and owned a 50% interest in Super Micro Business Park, Inc. ("Management Company") in Taiwan. The Management Company was established to manage the common areas shared by the Company and Ablecom for their separately constructed manufacturing facilities. 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. Therefore, the accounts of the Management Company have been consolidated with the accounts of the Company, and a noncontrolling interest has been recorded for Ablecom's interests in the net assets and operations of the Management Company. In the three months ended September 30, 2013 and 2012, $6,000 and $2,000, respectively, of net loss attributable to Ablecom's interest was included in the Company's general and administrative expenses in the condensed consolidated statements of operations.

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

Table of Contents
SUPER MICRO COMPUTER, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

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

Net Income Per Common Share

The Company’s restricted share awards subject to repurchase and settled in shares of common stock upon vesting have the nonforfeitable right to receive dividends on an equal basis with common stock and therefore are 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 is 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 also considers the dilutive effect of in-the-money stock options, calculated using the treasury stock method. Under the treasury stock method, the amount of assumed proceeds from unexercised stock options includes the amount of compensation cost attributable to future services not yet recognized, assumed proceeds from the exercise of the options, and the incremental income tax benefit or liability as if the options were exercised during the period.

Adoption of New Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") issued authoritative guidance associated with reporting of amounts reclassified out of accumulated other comprehensive income, which requires companies to present significant reclassifications out of accumulated other comprehensive income in their entirety in the statement of operations or in a separate footnote to the financial statements. For amounts that are not required to be reclassified in their entirety to net income, the standard requires companies to cross-reference to related footnoted disclosures. The new disclosure requirements are effective on a prospective basis for financial statements issued for fiscal years, and interim periods within those years, beginning after December 15, 2012 and early adoption is permitted. The adoption of this guidance did not have a material impact on the Company's financial statement disclosures, results of operations or financial position.

In July 2013, the FASB issued authoritative guidance associated with the presentation of unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. It requires a liability related to unrecognized tax benefit to offset a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if a settlement is required or expected in the event the uncertain tax position is disallowed. The Company currently plans to adopt the new disclosure requirement on July 1, 2014. The Company does not believe the adoption of this guidance will have a material impact on its financial statement disclosures, results of operations or financial position.

Note 2. Stock-based Compensation and Stockholders’ Equity

Equity Incentive Plan

In January 2011, the Board of Directors approved an amendment to the 2006 Equity Incentive Plan (the “2006 Plan”) that increased by 2,000,000 the aggregate maximum number of shares that may be issued under the 2006 Plan. The amendment to the 2006 Plan was approved by the Company’s stockholders in February 2011. The authorized number of shares that may be issued under the 2006 Plan automatically increases on July 1 each year through 2016, by an amount equal to (a) 3.0% of shares of stock issued and outstanding on the immediately preceding June 30, or (b) a lesser amount determined by the Board of Directors. 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. 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 and options vest over four years; 25% at the end of one year and one sixteenth per quarter thereafter. As of September 30, 2013, the Company had 1,671,649 authorized shares available for future issuance under all of its equity incentive plans.

Table of Contents
SUPER MICRO COMPUTER, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

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 was no incremental fair value of the option exchanged for the award. 898,205 and 718,564 shares were vested as of September 30, 2013 and June 30, 2013, respectively.

Determining Fair Value

Valuation and amortization method—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 an analysis of the relevant peer companies' post-vest termination rates and the exercise factors for the stock options granted prior to June 30, 2011. For stock options granted after June 30, 2011, the expected term is 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 implied and historical volatility for its peer group and the Company's historical volatility for the stock options granted prior to September 30, 2009. For stock options granted after September 30, 2009, expected volatility is based solely on the Company's historical volatility.

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 U.S. 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 three months ended September 30, 2013 and 2012 was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Three Months Ended September 30,			
	2013		2012	
Risk-free interest rate	1.54	%	0.65	%

Expected life	5.49 years		5.03 years	
Dividend yield	—	%	—	%
Volatility	50.05	%	51.29	%
Weighted-average fair value	$5.48		$5.55	

7

Table of Contents
SUPER MICRO COMPUTER, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

The following table shows total stock-based compensation expense included in the consolidated statements of operations for the three months ended September 30, 2013 and 2012 (in thousands):

	Three Months Ended September 30,	
	2013	2012
Cost of sales	$235	$240
Research and development	1,561	1,630
Sales and marketing	314	404
General and administrative	479	629
Stock-based compensation expense before taxes	2,589	2,903
Income tax impact	(288)	(228)
Stock-based compensation expense, net	$2,301	$2,675

The cash flows resulting from the tax benefits for tax deductions resulting from the exercise of stock options 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 $1,070,000 and $815,000 of excess tax benefits accounted in the Company's additional paid-in capital in the three months ended September 30, 2013 and 2012, respectively. The Company had excess tax benefits that are classified as cash from financing activities of $882,000 and $784,000 in the three months ended September 30, 2013 and 2012, respectively, for options issued since July 1, 2006. Excess tax benefits for stock options issued prior to July 1, 2006 continue to be classified as cash from operating activities.

Stock Option Activity

The following table summarizes stock option activity during the three months ended September 30, 2013 under all stock option plans:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at July 1, 2013	12,206,178	$10.83	6.23	$ 22,631
Granted	319,670	11.76		
Exercised	(277,159)	5.54		
Forfeited or cancelled	(82,850)	13.76		
Outstanding at September 30, 2013	12,165,839	10.96	6.15	42,277
Options vested and expected to vest at September 30, 2013	11,913,666	10.92	6.09	41,806
Options vested and exercisable at September 30, 2013	8,850,611	$9.93	5.21	$ 37,588

The total pretax intrinsic value of options exercised was $1,981,000 and $878,000 for the three months ended September 30, 2013 and 2012, respectively. As of September 30, 2013, the Company's total unrecognized compensation cost related to non-vested stock-based awards granted since July 1, 2006 to employees and non-employee directors was $17,985,000, which will be recognized over a weighted-average vesting period of approximately 2.34 years.

Table of Contents
SUPER MICRO COMPUTER, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Restricted Stock Award Activity

The following table summarizes the Company’s restricted stock award activity for the three months ended September 30, 2013:

	Restricted Stock Awards	
	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Nonvested stock at July 1, 2013	179,641	$10.66
Granted	—	—
Vested	(179,641)	10.66
Forfeited	—	—
Nonvested stock at September 30, 2013	—	$—

The total pretax intrinsic value of restricted stock awards vested was $2,337,000 and $2,190,000 for the three months ended September 30, 2013 and 2012, respectively. In the three months ended September 30, 2013 and 2012, upon vesting, 179,641 shares of restricted stock awards were partially net share-settled such that the Company withheld 50,000 shares and 83,857 shares, respectively, with value equivalent to an officer's 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 the vesting date as determined by the Company’s closing stock price. Total payments for an officer's tax obligations to the taxing authorities were $651,000 and $1,022,000 in the three months ended September 30, 2013 and 2012, respectively, and are reflected as a financing activity within the Condensed 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.

Note 3. Net Income Per Common Share

The computation of basic and diluted net income per common share using the two-class method is as follows (in thousands, except per share amounts):

Table of Contents
SUPER MICRO COMPUTER, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

	Three Months Ended September 30,	
	2013	2012
Basic net income per common share calculation		
Net income	$7,699	$899
Less: Undistributed earnings allocated to participating securities	(20)	(6)
Net income attributable to common shares—basic	$7,679	$893
Weighted-average number of common shares used to compute basic net income per common share	42,496	41,667
Basic net income per common share	$0.18	$0.02
Diluted net income per common share calculation		
Net income	$7,699	$899
Less: Undistributed earnings allocated to participating securities	(19)	(6)
Net income attributable to common shares—diluted	$7,680	$893
Weighted-average number of common shares used to compute basic net income per common share	42,496	41,667
Dilutive effect of options to purchase common stock	2,106	2,507
Weighted-average number of common shares used to compute diluted net income per common share	44,602	44,174
Diluted net income per common share	$0.17	$0.02

For the three months ended September 30, 2013 and 2012, the Company had stock options 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 shares of common stock issuable upon exercise of such anti-dilutive outstanding stock options were 5,909,000 and 5,338,000 for the three months ended September 30, 2013 and 2012, respectively.

Note 4. Balance Sheet Components

The following tables provide details of selected balance sheet items (in thousands):

Inventory:

	September 30, 2013	June 30, 2013
Finished goods	$ 184,098	$185,459
Work in process	16,689	10,440
Purchased parts and raw materials	53,523	58,271
Total inventory	$ 254,310	$254,170

The Company recorded a provision for lower of costs or market and excess and obsolete inventory totaling $4,000 and $2,910,000 in the three months ended September 30, 2013 and 2012, respectively.

Table of Contents
SUPER MICRO COMPUTER, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Property, Plant, and Equipment:

	September 30, 2013	June 30, 2013
Land	$ 41,774	$41,774
Buildings	43,979	43,979
Building and leasehold improvements	7,502	7,483
Machinery and equipment	29,007	26,941
Furniture and fixtures	4,805	4,731
Purchased software	5,432	5,380
	132,499	130,288
Accumulated depreciation and amortization	(35,732)	(34,376)
Property, plant and equipment, net	$ 96,767	$95,912

On September 20, 2013, the Company entered into an agreement for purchase and sale of real property. On October 31, 2013, the Company completed the purchase of real property for $30,091,000. The property consists of approximately 324,000 square feet of building space on 36 acres of land. The Company plans to draw additional proceeds from the credit facility in the future to finance this property.

Other Assets:

	September 30, 2013	June 30, 2013
Prepaid royalty license	$ 1,433	$1,496
Restricted cash	861	847
Investment in a privately held company	750	750
Building and land deposit	1,000	—
Others	141	148
Total other assets	$ 4,185	$3,241

Restricted cash consists primarily of certificates of deposits pledged as security for one irrevocable letter of credit required by the landlord of the Company's warehouse lease in Fremont, California, certificates of deposits pledged as security for a value added tax examination required by the tax authority of Taiwan and bank guarantees required by the landlord of the Company's office leases in the Netherlands. Building and land deposit is for the real property agreement entered in September 2013. Escrow of the property was closed on October 31, 2013.

Accrued Liabilities:

	September 30, 2013	June 30, 2013
Accrued payroll and related expenses	$ 8,873	$12,084
Customer prepayments	4,196	4,134
Accrued warranty costs	6,600	6,472
Accrued cooperative marketing expenses	3,967	4,016
Others	8,014	7,416

Total accrued liabilities	$ 31,650	$34,122

11

Table of Contents
SUPER MICRO COMPUTER, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Product Warranties:

	Three Months Ended September 30,	
	2013	2012
Balance, beginning of period	$6,472	$5,522
Provision for warranty	3,434	3,108
Costs charged to accrual	(3,351)	(2,904)
Change in estimated liability for pre-existing warranties	45	238
Balance, end of period	$6,600	$5,964

Note 5. Long-term Investments

As of September 30, 2013 and June 30, 2013, the Company held $2,637,000 of auction-rate securities ("auction rate securities"), net of unrealized losses, representing its interest in auction rate preferred shares in a closed end mutual fund invested in municipal securities; such auction rate securities were rated AAA or AA2 at September 30, 2013 and June 30, 2013. These auction rate preferred shares have no stated maturity date.

During February 2008, the auctions for these auction rate securities began to fail to obtain sufficient bids to establish a clearing rate and the securities were not saleable in the auction, thereby losing the short-term liquidity previously provided by the auction process. As a result, as of September 30, 2013 and June 30, 2013, $2,637,000 of these auction rate securities have been classified as long-term available-for-sale investments.

The Company has used a discounted cash flow model to estimate the fair value of the auction rate securities as of September 30, 2013 and June 30, 2013. 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. As of September 30, 2013, the discount rate, the time period until redemption and the estimated rate of return were 1.65%, 3 years and 0.33%, respectively. Management derives the estimates by obtaining input from market data on the applicable discount rate, estimated time to redemption and estimated rate of return. The changes in fair value have been primarily due to changes in the estimated rate of return and a change in the estimated redemption period. The fair value of the Company's investment portfolio may change between 1% to 3% by increasing or decreasing the rate of return used by 1% or by increasing or decreasing the term used by 1 year. Changes in these estimates or in the market conditions for these investments are likely in the future based upon the then current market conditions for these investments and may affect the fair value of these investments. On a quarterly basis, the Company reviews the inputs to assess their continued appropriateness and consistency. If any significant differences were to be noted, they would be researched in order to determine the reason. However, historically, no significant differences have been noted. The Company has consistently applied these valuation techniques in all periods presented and believes it has obtained the most accurate information available for the auction rate securities. Movement of these inputs would not significantly impact the fair value of the auction rate securities.

Based on this assessment of fair value, the Company determined there were no changes in the fair value of its auction rate securities during the three months ended September 30, 2013 and 2012. There was a cumulative total decline of $113,000 as of September 30, 2013 and June 30, 2013. That amount has been recorded as a component of other comprehensive income. As of September 30, 2013 and June 30, 2013, the Company has recorded an accumulated unrealized loss of $68,000, net of deferred income taxes, on long-term auction rate securities. The Company deems this loss to be temporary as it will not likely be required to sell the securities before their anticipated recovery and the

Company has the intent and financial ability to hold these investments until recovery of cost.

Although the investment impairment is considered to be temporary, these investments are not currently liquid and in the event the Company needs to access these funds, the Company will not be able to do so without a loss of principal. The Company plans to continue to monitor the liquidity situation in the marketplace and the creditworthiness of its holdings and will perform periodic impairment analysis. During the three months ended September 30, 2013 and 2012, there were no auction rate securities redeemed or sold.

Note 6. 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 which 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 which did not have observable inputs for its auction rate securities as of September 30, 2013 and June 30, 2013. Refer to Note 1 of Notes to Condensed Consolidated Financial Statements for a discussion of the Company's policies regarding the fair value hierarchy. The Company's methodology for valuing these investments is the discounted cash flow model and is described in Note 5 of Notes to Condensed Consolidated Financial Statements.

The following table sets forth the Company's cash equivalents and long-term investments as of September 30, 2013 and June 30, 2013 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):

September 30, 2013	Level 1	Level 2	Level 3	Asset at Fair Value
Money market funds	$310	$—	$—	$310
Auction rate securities	—	—	2,637	2,637
Total	$310	$—	$2,637	$2,947

June 30, 2013	Level 1	Level 2	Level 3	Asset at Fair Value
Money market funds	$310	$—	$—	$310
Auction rate securities	—	—	2,637	2,637
Total	$310	$—	$2,637	$2,947

The above table excludes $110,909,000 and $92,495,000 of cash and $1,159,000 and $1,139,000 of certificates of deposit held by the Company as of September 30, 2013 and June 30, 2013, respectively. There were no transfers between Level 1, Level 2 or Level 3 securities in the three months ended September 30, 2013 and 2012.

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 the three months ended September 30, 2013 and 2012 (in thousands):

	Three Months Ended September 30,	
	2013	2012
Balance as of beginning of period	$2,637	$2,923
Total realized gains or (losses) included in net income	—	—
Total unrealized gains or (losses) included in other comprehensive income	—	—
Sales and settlements at par	—	—
Transfers in and/or out of Level 3	—	—
Balance as of end of period	$2,637	$2,923

13

Table of Contents
SUPER MICRO COMPUTER, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

The following is a summary of the Company's long-term investments as of September 30, 2013 and June 30, 2013 (in thousands):

	September 30, 2013			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Auction rate securities	$2,750	$—	$(113)	$2,637

	June 30, 2013			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Auction rate securities	$2,750	$—	$(113)	$2,637

The Company measures the fair value of outstanding debt for disclosure purposes on a recurring basis. As of September 30, 2013 and June 30, 2013, short-term and long-term debt of $34,749,000 and $35,171,000, respectively, are reported at amortized cost. This outstanding debt is classified at Level 2 as they are not actively traded and are 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 7. Short-term and Long-term Obligations

Short-term and long-term obligations as of September 30, 2013 and June 30, 2013 consisted of the following (in thousands):

	September 30, 2013	June 30, 2013
Lines of credit:		
Bank of America	$10,899	$10,899
Building term loans:		
Bank of America	8,633	9,333
CTBC Bank	15,217	14,939
Total building term loans	23,850	24,272
Total debt	34,749	35,171
Current portion	(13,699)	(28,638)
Long-term portion	$21,050	$6,533

Activities under Revolving Lines of Credit and Term Loans

Bank of America

In October 2011, 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 $40,000,000 revolving line of credit facility that matured on June 15, 2013 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 credit agreement was subsequently amended to extend the maturity date of the revolving line of credit facility to August 15, 2014.

The line of credit facility provides for borrowings denominated both in U.S. dollars and in Taiwanese dollars. For borrowings denominated in U.S. dollars, the interest rate for the revolving line of credit is at the LIBOR rate plus 1.25% per annum. The LIBOR rate was 0.18% at September 30, 2013. For borrowings denominated in Taiwanese dollars, the interest rate is equal to the lender's established interest rate which is adjusted monthly.

As of September 30, 2013 and June 30, 2013, the total outstanding borrowings under the Bank of America term loan was $8,633,000 and $9,333,000, respectively. The total outstanding borrowings under the Bank of America line of credit was $10,899,000 as of September 30, 2013 and June 30, 2013. The interest rates for these loans ranged from 1.22% to 1.68% per annum at September 30, 2013 and 1.23% to 1.69% per annum at June 30, 2013, respectively. As of September 30, 2013, the unused revolving line of credit with Bank of America was $29,101,000.

CTBC Bank

In October 2011, the Company obtained an unsecured revolving line of credit from CTBC Bank Co., Ltd. (formerly, China Trust Bank) totaling NT$300,000,000 Taiwanese dollars, or $9,898,000 U.S. dollar equivalents. In July 2012, the Company increased the credit facility to NT$450,000,000 Taiwanese dollars or $14,912,000 U.S. dollar equivalents. The term loan was secured by the land and building located in Bade, Taiwan with an interest rate equal to the lender’s established interest rate plus 0.30% which was adjusted monthly. The total outstanding borrowings under the CTBC Bank Co., Ltd. ("CTBC Bank") term loan was denominated in Taiwanese dollars and was translated into U.S. dollars of $15,217,000 and $14,939,000 with an interest rate at 1.22% and 1.20% per annum at September 30, 2013 and June 30, 2013, respectively.

In November 2013, the Company entered into an amendment to the existing credit agreement with CTBC Bank which provides for (i) a 13-month NT$700,000,000 Taiwanese dollars or $23,787,000 U.S. dollar equivalents term loan secured by the land and building located in Bade, Taiwan with an interest rate equal to the lender's established interest rate plus 0.25% per annum which is adjusted monthly and (ii) a 13-month unsecured term loan up to NT$100,000,000 Taiwanese dollars or $3,398,000 U.S. dollar equivalents and a 13-month revolving line of credit up to 80% of eligible accounts receivable in an aggregate amount of up to NT$500,000,000 Taiwanese dollars or $16,991,000 U.S. dollar equivalents with an interest rate equal to the lender's established NTD interest rate plus 0.25% per annum or lender's established USD interest rate plus 0.30% per annum which is adjusted monthly. The total borrowings allowed under the credit agreement is capped at NT$1,000,000,000 Taiwanese dollars or $33,981,000 U.S. dollar equivalents. The Company amended this credit facility primarily to increase the credit facility amount and extend the maturity date to November 30, 2014. In November 2013, there were no additional borrowings under this credit agreement and NT$550,000,000 Taiwanese dollars or $18,690,000 U.S. dollar equivalents was available for future borrowing under this credit agreement. There are no financial covenants associated with this credit agreement.

Covenant Compliance

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

- Not to incur on a consolidated basis, a net loss before taxes and extraordinary items in any two consecutive quarterly accounting periods;
-

The Company's funded debt to EBITDA ratio (ratio of all outstanding liabilities for borrowed money and other interest-bearing liabilities, including current and long-term debt, less the non-current portion of subordinated liabilities to EBITDA) shall not be greater than 2.00;

- The Company's unencumbered liquid assets, as defined in the agreement, held in the United States shall have an aggregate market value of not less than $30,000,000, measured as of the last day of each fiscal quarter and the last day of each fiscal year.

As of September 30, 2013 and June 30, 2013, the total assets of $590,450,000 and $586,742,000, respectively, collateralized the line of credit with Bank of America were all of the assets of the Company except for the three buildings purchased in San Jose, California in June 2010 and the land and building located in Bade, Taiwan. As of September 30, 2013 and June 30, 2013, total assets collateralizing the term loan with Bank of America were $17,756,000 and $17,813,000, respectively. As of September 30, 2013, the Company was in compliance with all financial covenants associated with the credit agreement with Bank of America.

As of September 30, 2013 and June 30, 2013, the net book value of land and building located in Bade, Taiwan collateralizing the term loan with CTBC Bank was $27,593,000 and $27,702,000, respectively. There are no financial covenants associated with the term loan with CTBC Bank at September 30, 2013.

Note 8. 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 the 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 1.0% 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 35.9% of Ablecom at September 30, 2013.

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. The Company purchased products from Ablecom totaling $45,317,000 and $49,257,000 and sold products to Ablecom totaling $3,528,000 and $2,893,000 for the three months ended September 30, 2013 and 2012, respectively.

Amounts owed to the Company by Ablecom as of September 30, 2013 and June 30, 2013, were $1,077,000 and $974,000, respectively. Amounts owed to Ablecom by the Company as of September 30, 2013 and June 30, 2013, were $42,500,000 and $50,448,000, respectively. For the three months ended September 30, 2013, the Company paid Ablecom the majority of invoiced dollars between 51 and 86 days of invoice. For the three months ended September

30, 2013 and 2012, the Company paid $2,276,000 and $1,384,000, 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 $58,968,000 and $53,684,000 at September 30, 2013 and June 30, 2013, 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 Business 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 own 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. In the three months ended September 30, 2013 and 2012, $6,000 and $2,000, respectively, of net loss attributable to Ablecom's interest was included in the Company's general and administrative expenses in the condensed consolidated statements of operations.

Table of Contents
SUPER MICRO COMPUTER, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Note 9. Income Taxes

The Company recorded provisions for income taxes of $4,166,000 and $643,000 for the three months ended September 30, 2013 and 2012, respectively. The effective tax rate was 35.1% and 41.7% for the three months ended September 30, 2013 and 2012, respectively. The effective tax rates for the three months ended September 30, 2013 did not significantly differ from the U.S. federal statutory rate primarily due to the impact of stock option expenses partially offset by the benefit from federal and state research and development tax credit.

As of September 30, 2013, the Company had a liability for gross unrecognized tax benefits of $8,522,000, substantially all of which, if recognized, would affect the Company's effective tax rate. During the three months ended September 30, 2013, there were no material changes in the total amount of the liability for gross unrecognized tax benefit.

The Company’s policy is to include interest and penalties related to unrecognized tax benefits within the provision for taxes on the condensed consolidated statements of operations. As of September 30, 2013, the Company had accrued $906,000 for the payment of interest and penalties relating to unrecognized tax benefits.

The Company is subject to U.S. federal income tax as well as income taxes in many state and foreign jurisdictions. The statutes of limitation in federal jurisdiction remain open in general for tax years 2010 through 2013. The state jurisdictions remain open in general for tax years 2008 through 2013. The Company is currently under examination of its California state tax returns for the fiscal years ended June 30, 2008 through June 30, 2010. The Company does not expect its unrecognized tax benefits to change materially over the next 12 months. The major foreign jurisdictions remain open for examination in general for tax years 2006 through 2013.

Note 10. 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 condensed 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 2015. As of September 30, 2013, these remaining non-cancellable commitments were $245,255,000.

Included in the above non-cancellable commitments are hard disk drive purchase commitments totaling approximately $113,005,000, which will be paid through December 2014. 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.

Table of Contents
SUPER MICRO COMPUTER, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Note 11. 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 three months ended September 30, 2013 and 2012, of net sales by geographic region (in thousands):

	Three Months Ended September 30,	
	2013	2012
Net sales:		
United States	$175,214	$134,826
Europe	71,185	63,449
Asia	54,972	64,684
Other	7,645	7,748
	$309,016	$270,707

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

	September 30, 2013	June 30, 2013
Long-lived assets:		
United States	$61,686	$61,976
Asia	34,670	33,500
Europe	411	436
	$96,767	$95,912

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

	Three Months Ended September 30,			
	2013		2012	
	Amount	Percent of Net Sales	Amount	Percent of Net Sales
Server systems	$143,283	46.4 %	$106,849	39.5 %
Subsystems and accessories	165,733	53.6 %	163,858	60.5 %
Total	$309,016	100.0 %	$270,707	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. No customer represented greater than 10% of the Company's total net sales nor did net sales in any country other than the United States represent greater than 10% of the Company’s total net sales in the three months ended September 30, 2013 and 2012. No customer accounted for 10% or more of accounts receivable as of September 30, 2013. One customer accounted for 14.4% of the Company's accounts receivable as of June 30, 2013.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This section and other parts of this Form 10-Q contain “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 under “Risk Factors” below and in other parts of this Form 10-Q as well as in our other filings with the SEC. These factors may cause our actual results to differ materially 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. We cannot guarantee future results, levels of activity, performance or achievements.

Overview

We are a global leader in high-performance, high-efficiency server technology and green computing innovation. We develop and provide advanced server Building Block Solutions to Data Center, Cloud Computing, Enterprise, Hadoop/Big Data, High Performance Computing, or HPC, and Embedded markets. Our solutions range from complete server, storage, blade, workstation and full rack solutions to networking devices and server management software, which can be used by distributors, original equipment manufacturers, or OEMs, and end customers. Net sales of optimized servers were $143.3 million and $106.8 million for the three months ended September 30, 2013 and 2012, respectively. Net sales of subsystems and accessories were $165.7 million and $163.9 million for the three months ended September 30, 2013 and 2012, respectively. The increase in our net sales in the three months ended September 30, 2013 compared with the three months ended September 30, 2012 was primarily due to increased sales in server systems including FatTwin, storage, MicroCloud and GPU/Xeon Phi servers. Our first quarter is typically a softer quarter for IT-related capital spending by customers. However, our growth in the first quarter of fiscal year 2014 has continued to be strong despite the industry competition and macroeconomic headwinds.

We commenced operations in 1993 and have been profitable every year since inception. Our net sales were $309.0 million and $270.7 million for the three months ended September 30, 2013 and 2012, respectively. Our net income was $7.7 million and $0.9 million for the three months ended September 30, 2013 and 2012, respectively. Our increase in net income in the three months ended September 30, 2013 compared to the three months ended September 30, 2012 was primarily attributable to an increase in our gross profit resulting primarily from higher sales of server systems which have higher margins than our subsystems and accessories partially offset by higher research and development expenses.

We sell our server systems and subsystems and accessories primarily through distributors and to a lesser extent to OEMs as well as through our direct sales force. We derived 60.9% and 54.7% of our net sales from products sold to distributors and derived 39.1% and 45.3% from sales to OEMs and to end customers for the three months ended September 30, 2013 and 2012, respectively. The increase in our sales to distributors for the three months ended September 30, 2013 was due to the 30.0% growth in revenue from the United States. None of our customers accounted for 10% or more of our net sales in the three months ended September 30, 2013 and 2012. We derived 56.7% and 49.8% of our sales from customers in the United States for the three months ended September 30, 2013 and 2012, respectively. Revenue growth in North America has continued to be strong and consistent.

We perform the majority of our research and development efforts in-house. Research and development expenses represented 6.5% and 6.8% of our net sales for the three months ended September 30, 2013 and 2012, 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 2014, we expect to continue to invest in expanding our operations both in San Jose, California and our subsidiaries in Taiwan and the Netherlands in order to support our growth. We have increased manufacturing and service operations in Taiwan and the Netherlands to support our Asian and European customers and we have increased 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. Our purchases from Ablecom represented 17.3% and 20.9% of our cost of sales for the three months ended September 30, 2013 and 2012, 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 product costs. 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 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

Table of Contents

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.

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 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. For example, in fiscal year 2012 and in prior years, our results have been adversely impacted by customer order delays in anticipation of the introduction of the new lines of microprocessors and research and development expenditures necessary for us to prepare for the introduction.

Other Financial Highlights

The following is a summary of other financial highlights of the first quarter of fiscal year 2014:

- Net cash provided by (used in) operating activities was $18.3 million and $(26.6) million during the three months ended September 30, 2013 and 2012, respectively. Our cash and cash equivalents, together with our investments, were $114.2 million at the end of the first quarter of fiscal year 2014, compared with $95.7 million at the end of fiscal year 2013. The increase in our cash, cash equivalents and investments at the end of the first quarter of fiscal year 2014 was primarily due to $18.3 million of cash generated from our operating activities and $1.5 million of proceeds received from exercise of stock options, offset in part by $1.9 million of purchases of property and equipments.

- Days sales outstanding in accounts receivable (“DSO”) at the end of the first quarter of fiscal year 2014 was 42 days, compared with 38 days at the end of the fourth quarter of fiscal year 2013. The increase in DSO was primarily due to an increase in sales late in the quarter.

- Our inventory balance was $254.3 million at the end of the first quarter of fiscal year 2014, compared with $254.2 million at the end of fiscal year 2013. Days sales of inventory (“DSI”) at the end of the first quarter of fiscal year 2014 was 89 days, compared with 84 days at the end of fourth quarter of fiscal year 2013. The increase in DSI at the end of the first quarter of fiscal year 2014 was due to lower cost of goods sold in the first quarter of fiscal year 2014.

- Our purchase commitments with contract manufacturers and suppliers were $245.3 million at the end of the first quarter of fiscal year 2014 and $249.0 million at the end of fiscal year 2013. Included in the above non-cancellable commitments are hard disk drive purchase commitments totaling approximately $113.0 million, which have terms expiring through December 2014. See Note 10 of Notes to our Condensed Consolidated Financial Statements for a discussion of purchase commitments.

- On September 20, 2013, we entered into an agreement for purchase and sale of real property. On October 31, 2013, we completed the purchase of real property for $30.1 million.

Fiscal Year

Our fiscal year ends on June 30. References to fiscal year 2014, for example, refer to the fiscal year ending June 30, 2014.

Table of Contents

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, 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 on server systems than on subsystems and accessories. 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 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 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 which 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 represents the net of interest expense on the building loans or line of credit for our owned facilities offset by our interest income earned on our investments and cash balances.

Income tax provision. Our income tax provision is based on our taxable income generated in the jurisdictions in which we operate, currently primarily the United States, Taiwan, the Netherlands and to a lesser extent, China. Our effective tax rate differs from the statutory rate primarily due to research and development tax credits, the domestic production activities deduction and lower taxes in foreign jurisdictions which were partially offset by the impact of state taxes and stock option expenses.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our 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 and stock-based compensation. 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

Table of Contents

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. Our standard 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 or customer acceptance provisions, for which revenue is recognized when the products arrive or are accepted at the destination. 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 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.

In addition, certain customers have acceptance provisions and revenue is deferred until the customers provide the necessary acceptance. At September 30, 2013 and June 30, 2013, we had deferred revenue of $2.4 million and $1.0 million and related deferred product costs of $2.1 million and $0.7 million, respectively, related to shipments to customers pending acceptances.

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 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, we evaluate aged items in the accounts receivable aging report and provide an allowance in an amount we deem adequate for doubtful accounts. Our provision for bad debt was $0.8 million and $0.1 million in the three months ended September 30, 2013 and 2012, respectively. 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.

We have an immaterial amount of service revenue relating to non-warranty repairs, which is recognized upon shipment of the repaired units to customers. 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 $6.6 million as of September 30, 2013, compared with $6.5 million as of June 30, 2013. The provision for warranty reserve was $3.4 million and $3.1 million in the three months ended September 30, 2013 and 2012, respectively. Our estimates and assumptions used have been historically close to actual. The change in estimated liability for pre-existing warranties was $45,000 and $0.2 million in the three months ended September 30, 2013 and 2012, respectively. As a result of our increase in cost of servicing warranty claims in the three months ended September 30, 2013, the provision for warranty reserve increased compared to the three months ended September 30, 2012. 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 appropriately.

Table of Contents

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 to lower of cost or market or for excess and obsolescence based upon the number of units that are unlikely to be sold based upon estimated demand for the following twelve months. This evaluation takes into account matters including expected demand, 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 $4,000 and $2.9 million in the three months ended September 30, 2013 and 2012, 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 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 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 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 9 of Notes to Condensed Consolidated Financial Statements for the impact on our condensed consolidated financial statements.

Stock-based compensation. We measure and recognize the 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 awards based on estimated fair values. 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. Compensation expense for options and restricted stock awards granted to employees was $2.6 million and $2.9 million for the three months ended September 30, 2013 and 2012, respectively.

As of September 30, 2013, the total unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested stock options granted since July 1, 2006 to employees and non-employee members of the Board of Directors, was $18.0 million, which is expected to be recognized as an expense over a weighted-average period of approximately 2.34 years. See Note 2 of Notes to our Condensed Consolidated Financial Statements for additional information.

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 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 an analysis of the relevant peer companies' post-vest termination rates and exercise behavior for the stock options granted prior to June 30, 2011. For stock options and restricted stock awards granted after June 30, 2011, expected term is based on a combination of our peer group and our historical experience. The expected volatility is based on a combination of the implied and historical volatility of our relevant peer group for the stock options granted prior to September 30, 2009. For stock options and restricted stock awards granted after September 30, 2009, expected volatility is based solely on our 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 forfeitures and record stock-based compensation expense only for those awards that are expected to vest.

Variable interest entities. We have concluded that Ablecom and its subsidiaries ("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.

In May 2012, we and Ablecom jointly established Super Micro Business 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 September 30, 2013, 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 the three months ended September 30, 2013 and 2012, $6,000 and $2,000, respectively, of net loss attributable to Ablecom's interest was included in our general and administrative expenses in the condensed consolidated statements of operations.

Results of Operations

The following table sets forth our financial results, as a percentage of net sales for the periods indicated:

	Three Months Ended September 30,			
	2013		2012	
Net sales	100.0	%	100.0	%
Cost of sales	84.9		87.1	
Gross profit	15.1		12.9	
Operating expenses:				
Research and development	6.5		6.8	
Sales and marketing	2.9		3.2	
General and administrative	1.8			