

SILICON STORAGE TECHNOLOGY INC
Form 10-Q
August 17, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from to .

Commission File Number 0-26944

SILICON STORAGE TECHNOLOGY, INC.

(Exact name of Registrant as Specified in its Charter)

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California (State or Other Jurisdiction of Incorporation or Organization)	77-0225590 (I.R.S. Employer Identification Number)
1020 Kifer Road, Sunnyvale, CA (Address of Principal Executive Offices)	94086 (Zip Code)
(408) 735-9110 (Registrant's Telephone Number, including Area Code)	

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

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

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

Number of shares outstanding of Common Stock, no par value, as of July 31, 2009: 95,850,407

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements****SILICON STORAGE TECHNOLOGY, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(unaudited)****(in thousands, except per share data)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2009	2008	2009
Net revenues:				
Product revenues - unrelated parties	\$ 27,971	\$ 19,749	\$ 58,440	\$ 34,637
Product revenues - related parties	43,102	32,017	82,331	55,916
Technology licensing - unrelated parties	12,272	6,040	23,577	17,310
Technology licensing - related parties	355	277	437	349
Total net revenues	83,700	58,083	164,785	108,212
Cost of revenues:				
Cost of revenues - unrelated parties	21,631	14,186	42,930	24,923
Cost of revenues - related parties	38,120	30,388	72,197	54,186
Total cost of revenues	59,751	44,574	115,127	79,109
Gross profit	23,949	13,509	49,658	29,103
Operating expenses:				
Research and development	15,223	11,250	30,835	22,664
Sales and marketing	6,918	5,166	14,401	10,126
General and administrative	7,721	4,636	14,904	9,796
Other				329
Total operating expenses	29,862	21,052	60,140	42,915
Loss from operations	(5,913)	(7,543)	(10,482)	(13,812)
Interest and dividend income	1,120	545	2,422	1,189
Impairment of investments		(485)	(234)	(485)
Other income (expense), net	(144)	143	(338)	(4)
Loss before provision for (benefit from) income taxes and pro rata share of loss from equity investments	(4,937)	(7,340)	(8,632)	(13,112)
Provision for (benefit from) income taxes	2,390	(1,146)	(4,660)	1,728
Loss before pro rata share of loss from equity investments	(7,327)	(6,194)	(3,972)	(14,840)
Pro rata share of loss from equity investments	2,241	254	4,137	849
Net loss	\$ (9,568)	\$ (6,448)	\$ (8,109)	\$ (15,689)

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Net loss per share - basic and diluted	\$	(0.09)	\$	(0.07)	\$	(0.08)	\$	(0.16)
Shares used in per share calculation - basic and diluted		101,793		95,747		102,698		95,726

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

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	December 31, 2008	June 30, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 50,880	\$ 51,206
Short-term available-for-sale investments	48,997	49,664
Trade accounts receivable-unrelated parties, net of allowance for doubtful accounts of \$79 at December 31, 2008 and \$11 at June 30, 2009	9,356	9,796
Trade accounts receivable-related parties	10,761	21,625
Inventories	54,159	33,323
Other current assets	4,153	3,972
Total current assets	178,306	169,586
Property and equipment, net	18,913	15,243
Long-term available-for-sale equity investments	18,196	26,847
Long-term available-for-sale debt securities	31,848	34,457
Equity investment, GSMC	11,506	11,021
Equity investment, ACET	2,627	1,991
Equity investments, others	10,486	9,863
Goodwill	11,221	11,221
Intangible assets, net	3,573	2,186
Other assets	1,807	1,766
Total assets	\$ 288,483	\$ 284,181
LIABILITIES		
Current liabilities:		
Trade accounts payable-unrelated parties	\$ 15,702	15,327
Trade accounts payable-related parties	3,444	6,333
Accrued expenses and other liabilities	14,200	11,493
Deferred revenue	3,841	2,304
Total current liabilities	37,187	35,457
Taxes payable	7,760	7,835
Other liabilities	322	23
Total liabilities	45,269	43,315
Commitments (Note 6) and Contingencies (Note 7)		
SHAREHOLDERS EQUITY		
Common stock	412,312	414,256
Accumulated other comprehensive income	14,308	25,705

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Accumulated deficit	(183,406)	(199,095)
Total shareholders' equity	243,214	240,866
Total liabilities and shareholders' equity	\$ 288,483	\$ 284,181

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

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SILICON STORAGE TECHNOLOGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	Six Months Ended June 30,	
	2008	2009
Cash flows from operating activities:		
Net loss	\$ (8,109)	\$ (15,689)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	5,423	4,866
Share-based compensation expense	3,097	1,522
Provision (credits) for doubtful accounts receivable	180	(68)
Provision for (release from) sales returns	(95)	(80)
Write-down of inventories and provision for adverse purchase commitments	6,173	5,899
Pro rata share of loss from equity investments	4,137	849
Impairment loss on equity investment		485
Other	212	371
Changes in operating assets and liabilities:		
Trade accounts receivable - unrelated parties	7,337	(300)
Trade accounts receivable - related parties	11,498	(10,856)
Inventories	(19,651)	15,676
Other current and non-current assets	(165)	502
Trade accounts payable - unrelated parties	103	(375)
Trade accounts payable - related parties	2,910	2,889
Accrued expenses and other liabilities	(2,607)	(3,244)
Deferred revenue	891	(1,536)
Net cash provided by operating activities	11,334	911
Cash flows from investing activities:		
Purchase of property and equipment	(5,220)	(329)
Purchases of available-for-sale investments	(59,565)	(37,298)
Maturities of available-for-sale investments	29,035	37,574
Other	(503)	(428)