SYNAPTICS Inc
Form 10-Q
February 07, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 29, 2018

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .

Commission file number 000-49602

SYNAPTICS INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware	77-0118518
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1251 McKay Drive

San Jose, California 95131

(Address of principal executive offices) (Zip code)

(408) 904-1100

(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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 of Common Stock outstanding at February 1, 2019: 34,403,114

SYNAPTICS INCORPORATED

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED DECEMBER 29, 2018

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ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SYNAPTICS INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except par value and share amounts)

(unaudited)

	December 31, 2018	June 30, 2018
ASSETS		
Current Assets:		
Cash and cash equivalents	$283.0	$301.0
Accounts receivable, net of allowances of $2.1 and $1.8 at December 31, 2018 and June 30, 2018, respectively	326.0	289.1
Inventories	145.7	131.2
Prepaid expenses and other current assets	35.1	18.2
Total current assets	789.8	739.5
Property and equipment at cost, net of accumulated depreciation of $130.4 and $127.4 at December 31, 2018 and June 30, 2018, respectively	106.0	117.8
Goodwill	372.8	372.8
Acquired intangibles, net	181.2	219.2
Non-current other assets	49.8	50.5
	$1,499.6	$1,499.8
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current Liabilities:		
Accounts payable	$172.6	$156.9
Accrued compensation	23.2	25.4
Income taxes payable	11.6	13.1
Acquisition-related liabilities	-	8.7
Other accrued liabilities	91.9	79.7
Total current liabilities	299.3	283.8
Convertible notes, net	459.4	450.7
Other long-term liabilities	36.7	36.0
Total liabilities	795.4	770.5
Stockholders' Equity:		
Common stock:		
$0.001 par value; 120,000,000 shares authorized,	0.1	0.1

63,803,544 and 62,889,679 shares issued, and 34,313,668 and 35,249,803 shares outstanding, at December 31, 2018 and June 30, 2018, respectively		
Additional paid-in capital	1,232.3	1,195.2
Treasury stock: 29,489,876 and 27,639,876 common treasury shares at December 31, 2018 and June 30, 2018, respectively, at cost	(1,151.2)	(1,073.9)
Accumulated other comprehensive income	-	1.5
Retained earnings	623.0	606.4
Total stockholders' equity	704.2	729.3
	$1,499.6	$1,499.8

See accompanying notes to condensed consolidated financial statements (unaudited).

SYNAPTICS INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

(unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Net revenue	$425.5	$430.4	$843.1	$847.8
Cost of revenue	275.7	315.2	552.4	618.2
Gross margin	149.8	115.2	290.7	229.6
Operating expenses:				
Research and development	84.2	92.2	174.3	179.3
Selling, general, and administrative	35.6	37.4	69.4	77.7
Acquired intangibles amortization	2.9	3.0	5.8	7.1
Restructuring costs	2.1	6.6	10.4	6.4
Total operating expenses	124.8	139.2	259.9	270.5
Operating income/(loss)	25.0	(24.0)	30.8	(40.9)
Interest and other expense, net	(4.3)	(4.7)	(6.2)	(10.7)
Income/(loss) before provision for income taxes and equity investment loss	20.7	(28.7)	24.6	(51.6)
Provision for income taxes	7.5	53.3	7.2	56.5
Equity investment loss	(0.4)	(0.4)	(0.8)	(0.8)
Net income/(loss)	$12.8	$(82.4)	$16.6	$(108.9)
Net income/(loss) per share:				
Basic	$0.37	$(2.42)	$0.48	$(3.22)
Diluted	$0.36	$(2.42)	$0.47	$(3.22)
Shares used in computing net income/(loss) per share:				
Basic	34.5	34.1	34.8	33.8
Diluted	35.1	34.1	35.6	33.8

See accompanying notes to condensed consolidated financial statements (unaudited).

SYNAPTICS INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

(in millions)

(unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Net income/(loss)	$12.8	$(82.4)	$16.6	$(108.9)
Other comprehensive loss:				
Change in unrealized net gain on investment	-	-	(1.5)	-
Net current period-other comprehensive loss	-	-	(1.5)	-
Comprehensive income/(loss)	$12.8	$(82.4)	$15.1	$(108.9)

See accompanying notes to condensed consolidated financial statements (unaudited).

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SYNAPTICS INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(unaudited)

	Six Months Ended December 31,	
	2018	2017
Cash flows from operating activities		
Net income/(loss)	$16.6	$(108.9)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Share-based compensation costs	32.9	34.3
Depreciation and amortization	19.2	20.1
Acquired intangibles amortization	38.0	43.3
Deferred taxes	(4.5)	22.7
Amortization of convertible debt discount and issuance costs	8.7	8.4
Amortization of debt issuance costs	0.3	1.4
Impairment recovery on investments	(2.8)	-
Arbitration settlement	(1.9)	-
Equity investment loss	0.8	0.8
Foreign currency remeasurement (gain)/loss	0.2	0.1
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable, net	(31.7)	30.0
Inventories	(14.5)	70.1
Prepaid expenses and other current assets	(17.0)	18.4
Other assets	2.6	(5.5)
Accounts payable	19.5	(27.6)
Accrued compensation	(2.2)	(5.4)
Acquisition-related liabilities	(6.8)	-
Income taxes payable	(0.4)	7.6
Other accrued liabilities	6.5	(6.6)
Net cash provided by operating activities	63.5	103.2
Cash flows from investing activities		
Acquisition of businesses, net of cash and cash equivalents acquired	-	(395.9)
Proceeds from sales of investments	2.8	-
Purchases of property and equipment	(11.2)	(19.5)
Purchase of intangible assets	-	(7.7)
Net cash used in investing activities	(8.4)	(423.1)
Cash flows from financing activities		
Proceeds from issuance of convertible debt, net of issuance costs	-	514.5
Payment of debt	-	(220.0)
Purchases of treasury stock	(77.3)	(93.6)
Proceeds from issuance of shares	11.4	9.2

Payment of debt issuance costs	-	(1.1)
Payroll taxes for deferred stock and market stock units	(7.2)	(4.6)
Net cash provided by/(used in) financing activities	(73.1)	204.4
Effect of exchange rate changes on cash and cash equivalents	-	(0.1)
Net decrease in cash and cash equivalents	(18.0)	(115.6)
Cash and cash equivalents at beginning of period	301.0	367.8
Cash and cash equivalents at end of period	$283.0	$252.2
Supplemental disclosures of cash flow information		
Cash paid for taxes	$14.3	$18.1
Cash refund on taxes	$5.2	$1.0
Non-cash investing and financing activities:		
Purchases of property and equipment in current liabilities	$2.8	$3.4
Common stock issued pursuant to acquisition	$-	$39.1

See accompanying notes to condensed consolidated financial statements (unaudited)

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SYNAPTICS INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission, or the SEC, and U.S. generally accepted accounting principles, or U.S. GAAP. Certain information or footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to SEC rules and regulations. In our opinion, the financial statements include all adjustments, which are of a normal and recurring nature and necessary for the fair presentation of the results of the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the operating results for the full fiscal year or any future period. These financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2018.

The consolidated financial statements include our financial statements and those of our wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated upon consolidation.

Our fiscal year is the 52- or 53-week period ending on the last Saturday in June. Our fiscal 2019 is a 52-week period ending June 29, 2019, and our fiscal 2018 was a 53-week period ending on June 30, 2018. The fiscal periods presented in this report are 13-week and 26-week periods for the three and six months ended December 29, 2018, respectively, and 13-week and 27-week periods for the three and six months ended December 30, 2017, respectively. For simplicity, the accompanying condensed consolidated financial statements have been shown as ending on calendar quarter end dates as of and for all periods presented, unless otherwise indicated.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, allowance for doubtful accounts, cost of revenue, inventories, loss on purchase commitments, product warranty, accrued liabilities, share-based compensation costs, provision for income taxes, deferred income tax asset valuation allowances, uncertain tax positions, goodwill, intangible assets, investments and loss contingencies. We base our estimates on historical experience, applicable laws and regulations, and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Foreign Currency Transactions and Foreign Exchange Contracts

The U.S. dollar is our functional and reporting currency. We remeasure our monetary assets and liabilities not denominated in the functional currency into U.S. dollar equivalents at the rate of exchange in effect on the balance sheet date. We measure and record non-monetary balance sheet accounts at the historical rate in effect at the date of transaction. We remeasure foreign currency expenses at the weighted average exchange rate in the month that the transaction occurred. Our foreign currency transactions and remeasurement gains and losses are included in selling, general, and administrative expenses in the condensed consolidated statements of operations and resulted in net losses of $0.2 million and $0.6 million in the three and six months ended December 31, 2018 and net losses of $0.2 million and $0.5 million in the three and six months ended December 31, 2017.

2. Revenue Recognition

Change in Accounting Policy

In May 2014, the FASB issued an Accounting Standards Update, or ASU, on revenue from contracts with customers, ASU No. 2014-09, Revenue from Contracts with Customers, or the new revenue standard. The new revenue standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers.

We adopted the new revenue standard at the beginning of our fiscal 2019, using the modified retrospective method applied to all contracts not completed as of the adoption date. Results for reporting periods ending after our fiscal 2018 are presented under the new revenue standard, while prior reporting periods are not adjusted and continue to be reported in accordance with the previous revenue standard. Recognition of revenue has remained substantially unchanged under the new revenue standard as that under the previous revenue standard. Accordingly, there was no adjustment to the fiscal 2019 opening retained earnings. However, we reclassified certain amounts of incentive items to other accrued liabilities in our condensed consolidated balance sheet as of December 31, 2018, and presented them as part of customer obligations, from the contra accounts receivable due to the adoption of the new revenue standard. Such information is as follows (in millions):

Condensed Consolidated Balance Sheets

	As of December 31, 2018		
	As reported under new standard	Adjustments	Pro forma as if previous standard was in effect
Accounts receivable, net	$326.0	$ (5.1)	$320.9
Total assets	1,499.6	(5.1)	1,494.5
Other accrued liabilities	91.9	(5.1)	86.8
Total liabilities and stockholders' equity	1,499.6	(5.1)	1,494.5

Condensed Consolidated Statement of Cash Flows

	Six Months Ended December 31, 2018		
	As reported under new standard	Adjustments	Pro forma as if previous standard was in effect
Cash flows from operating activities:			
Accounts receivable, net	$(31.7)	$ (0.1)	$ (31.8)
Other accrued liabilities	6.5	0.1	6.6

Revenue Recognition

Our revenue is primarily generated from the sale of ASIC chips, either directly to a customer or to a distributor. Revenues are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to receive in exchange for those goods or services. All of our revenue, except an inconsequential amount, is recognized at a point in time, either on shipment or delivery of the product, depending on customer terms and conditions. We generally warrant our products for a period of 12 months from the date of sale and estimate probable product warranty costs at the time we recognize revenue as the warranty is considered an assurance warranty and not a performance obligation. Non-product revenue is recognized over the same period of time such performance obligations are satisfied. We then select an appropriate method for measuring satisfaction of the performance obligations.

Revenue from sales to distributors is recognized upon shipment of the product to the distributors (sell-in basis). Master sales agreements are in place with certain customers, and these agreements typically contain terms and conditions with respect to payment, delivery, warranty and supply. In the absence of a master sales agreement, we consider a customer's purchase order or our standard terms and conditions to be the contract with the customer.

Our pricing terms are negotiated independently, on a stand-alone basis. In determining the transaction price, we evaluate whether the price is subject to refund or adjustment to determine the net consideration which we expect to receive for the sale of such products. In limited situations, we make sales to certain customers under arrangements where we grant stock rotation rights, price protection and price allowances; variable consideration associated with these rights is expected to be inconsequential. These adjustments and incentives are accounted for as variable consideration, classified as other current liabilities under the new revenue standard and are shown as customer obligations in Note 7 Other Accrued Liabilities. We estimate the amount of variable consideration for such arrangements based on the expected value to be provided to customers, and we do not believe that there will be significant changes to our estimates of variable consideration. When incentives, stock rotation rights, price protection, volume discounts, or price allowances are applicable, they are estimated and recorded in the period the related revenue is recognized. Stock rotation reserves are based on historical return rates and recorded as a reduction to revenue with a corresponding reduction to cost of goods sold for the estimated cost of inventory that is expected to be returned. In limited circumstances we enter into volume based tiered pricing arrangements and we estimate total unit volumes under such arrangement to determine the expected transaction price for the units expected to be transferred. Such arrangements are accounted for as contract liabilities within other accrued liabilities. Sales returns liabilities are recorded as refund liabilities within other accrued liabilities.

Our accounts receivable balance is from contracts with customers and represents our unconditional right to receive consideration from customers. Payments are generally due within three months upon completion of the performance obligation and subsequent invoicing and, therefore, do not include significant financing components. To date, there have been no material impairment losses on accounts receivable. There were no contract assets (i.e., unbilled accounts receivable, deferred commissions) recorded on the condensed consolidated balance sheets in the periods presented. Contract liabilities and refund liabilities were $6.4 million and $39.9 million, respectively, as of December 31, 2018 and $1.1 million and $31.6 million, respectively, as of the beginning of fiscal 2019. Both contract liabilities and refund liabilities are presented as part of customer obligations in Note 7 Other Accrued Liabilities. During the six months ended December 31, 2018, we recognized $0.3 million in revenue related to contract liabilities outstanding as of the beginning of fiscal 2019.

We invoice customers for each delivery upon shipment and recognize revenue in accordance with delivery terms. As of December 31, 2018, we did not have any remaining unsatisfied performance obligations with an original duration greater than one year. Accordingly, under the optional exception provided by ASC 606-10-50-14, we do not disclose revenues allocated to future performance obligations of partially completed contracts. We have elected to account for shipping and handling costs as fulfillment costs before the customer obtains control of the goods. We continue to classify shipping and handling costs as a cost of revenue. We have elected to continue to account for collection of all taxes on a net basis.

We incur commission expense that is incremental to obtaining contracts with customers. Sales commissions (which are recorded in the “selling, general and administrative” expense line item in the condensed consolidated statements of operations) are expensed when the product is shipped because such commissions are owed after shipment.

Revenue from contracts with customers disaggregated by geographic area based on customer location and groups of similar products is presented in Note 12 Segment, Customers, and Geographical Information.

3. Net Income Per Share

The computation of basic and diluted net income per share was as follows (in millions, except per share data):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Numerator:				
Net income/(loss)	$12.8	$(82.4)	$16.6	$(108.9)
Denominator:				
Shares, basic	34.5	34.1	34.8	33.8
Effect of dilutive share-based awards	0.6	—	0.8	—
Shares, diluted	35.1	34.1	35.6	33.8
Net income/(loss) per share:				
Basic	$0.37	$(2.42)	$0.48	$(3.22)
Diluted	$0.36	$(2.42)	$0.47	$(3.22)

Our basic net income per share amounts for each period presented have been computed using the weighted average number of shares of common stock outstanding over the period measured. Our diluted net income per share amounts for each period presented include the weighted average effect of potentially dilutive shares. We use the “treasury stock” method to determine the dilutive effect of our stock options, deferred stock units, or DSUs, market stock units, or MSUs, performance stock units, or PSUs, and our convertible notes.

Dilutive net income per share amounts do not include the potential weighted average effect of 1,736,456 and 3,334,776 shares of common stock related to certain share-based awards that were outstanding during the three months ended December 31, 2018 and 2017, respectively, and 1,426,365 and 3,020,056 shares of common stock related to certain share-based awards that were outstanding during the six months ended December 31, 2018, and 2017, respectively. These share-based awards were not included in the computation of diluted net income per share because their effect would have been antidilutive.

4. Fair Value

Financial assets measured at fair value on a recurring basis by level within the fair value hierarchy, consisted of the following (in millions):

	December 31, 2018			June 30, 2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets:						
Money market funds	$259.4	$ -	$ -	$275.2	$ -	$ -
Auction rate securities	-					