

MONOLITHIC POWER SYSTEMS INC
Form 10-Q
August 03, 2015

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, 2015

OR

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

Commission file number: 000-51026

Monolithic Power Systems, Inc.

(Exact name of registrant as specified in its charter)

Delaware **77-0466789**
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification Number)

79 Great Oaks Boulevard, San Jose, CA 95119

(Address of principal executive offices)(Zip code)

(408) 826-0600

(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.

Large accelerated filer Accelerated filer Non-accelerated filer 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

There were 39,601,382 shares of the registrant's common stock issued and outstanding as of July 27, 2015.

MONOLITHIC POWER SYSTEMS, INC.

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PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****MONOLITHIC POWER SYSTEMS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except par value)

(unaudited)

	June 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$80,868	\$126,266
Short-term investments	150,166	112,452
Accounts receivable, net	26,765	25,630
Inventories	64,964	40,918
Prepaid expenses and other current assets	2,554	2,880
Total current assets	325,317	308,146
Property and equipment, net	62,163	62,942
Long-term investments	5,375	5,389
Goodwill	6,571	6,571
Acquisition-related intangible assets, net	6,078	6,812
Deferred tax assets, net	1,053	1,049
Other long-term assets	11,066	8,457
Total assets	\$417,623	\$399,366
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$16,596	\$13,138
Accrued compensation and related benefits	11,236	9,020
Accrued liabilities	18,402	14,703
Total current liabilities	46,234	36,861
Deferred tax and other tax liabilities	3,018	5,876
Other long-term liabilities	13,609	10,204
Total liabilities	62,861	52,941
Stockholders' equity:		
	251,553	240,500

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Common stock, \$0.001 par value; shares authorized: 150,000; shares issued and outstanding:
39,617 and 38,832 as of June 30, 2015 and December 31, 2014, respectively

Retained earnings	97,023	100,114
Accumulated other comprehensive income	6,186	5,811
Total stockholders' equity	354,762	346,425
Total liabilities and stockholders' equity	\$417,623	\$ 399,366

See accompanying notes to unaudited condensed consolidated financial statements.

MONOLITHIC POWER SYSTEMS, INC.**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per-share amounts)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue	\$81,416	\$68,436	\$154,954	\$128,497
Cost of revenue	37,287	31,337	71,142	59,301
Gross profit	44,129	37,099	83,812	69,196
Operating expenses:				
Research and development	15,743	13,368	31,781	28,971
Selling, general and administrative	17,964	16,853	35,482	32,962
Litigation expense (benefit), net	311	274	581	(8,426)
Total operating expenses	34,018	30,495	67,844	53,507
Income from operations	10,111	6,604	15,968	15,689
Interest and other income, net	235	295	877	485
Income before income taxes	10,346	6,899	16,845	16,174
Income tax provision	2,447	502	2,983	759
Net income	\$7,899	\$6,397	\$13,862	\$15,415
Net income per share:				
Basic	\$0.20	\$0.17	\$0.35	\$0.40
Diluted	\$0.19	\$0.16	\$0.34	\$0.39
Weighted-average shares outstanding:				
Basic	39,570	38,684	39,337	38,577
Diluted	40,745	39,608	40,670	39,563
Cash dividends declared per common share	\$0.20	\$0.15	\$0.40	\$0.15

See accompanying notes to unaudited condensed consolidated financial statements.

MONOLITHIC POWER SYSTEMS, INC.**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	\$7,899	\$6,397	\$13,862	\$15,415
Other comprehensive income (loss), net of tax:				
Change in unrealized losses on auction-rate securities, net of \$0 tax in 2015 and 2014	(19)	5	(14)	(12)
Change in unrealized gains/losses on other available-for-sale securities, net of \$0 tax in 2015 and 2014	4	7	35	12
Foreign currency translation adjustments	105	176	354	(420)
Total other comprehensive income (loss), net of tax	90	188	375	(420)
Comprehensive income	\$7,989	\$6,585	\$14,237	\$14,995

See accompanying notes to unaudited condensed consolidated financial statements.

MONOLITHIC POWER SYSTEMS, INC.**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

(unaudited)

	Six Months Ended	
	June 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 13,862	\$ 15,415
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,092	6,300
Premium amortization and (gains) losses on investments	256	134
Stock-based compensation	18,716	16,013
Excess tax benefit from equity awards	(2,648)	-
Changes in operating assets and liabilities:		
Accounts receivable	(1,134)	2,310
Inventories	(24,029)	(1,457)
Prepaid expenses and other assets	405	(1,447)
Accounts payable	4,687	2,968
Accrued liabilities	2,807	(4,955)
Income tax liabilities	1,122	134
Accrued compensation and related benefits	2,213	2,173
Net cash provided by operating activities	23,349	37,588
Cash flows from investing activities:		
Property and equipment purchases	(6,655)	(5,958)
Purchases of short-term investments	(129,663)	(86,558)
Proceeds from sale of short-term investments	91,962	78,502
Premiums paid on deferred compensation plan, net	(2,775)	(2,396)
Net cash used in investing activities	(47,131)	(16,410)
Cash flows from financing activities:		
Property and equipment purchased on extended payment terms	(150)	(250)
Proceeds from exercise of stock options	6,680	8,623
Proceeds from shares issued under the employee stock purchase plan	1,121	1,053
Repurchases of common shares	(18,129)	(23,796)
Dividends and dividend equivalents paid	(13,842)	-
Excess tax benefit from equity awards	2,648	-
Net cash used in financing activities	(21,672)	(14,370)
Effect of change in exchange rates	56	(158)
Net increase (decrease) in cash and cash equivalents	(45,398)	6,650
Cash and cash equivalents, beginning of period	126,266	101,213
Cash and cash equivalents, end of period	\$ 80,868	\$ 107,863

Supplemental disclosures for cash flow information:

Cash paid for taxes	\$1,755	\$633
Supplemental disclosures of non-cash investing and financing activities:		
Liability accrued for property and equipment purchases	\$681	\$611
Liability accrued for dividends and dividend equivalents	\$9,121	\$6,083

See accompanying notes to unaudited condensed consolidated financial statements.

MONOLITHIC POWER SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared by Monolithic Power Systems, Inc. (the "Company" or "MPS") in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") have been condensed or omitted in accordance with these rules and regulations. The information in this report should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC on March 2, 2015.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the Company's financial position, results of operations and cash flows for the interim periods presented. The financial statements contained in this Form 10-Q are not necessarily indicative of the results that may be expected for the year ending December 31, 2015 or for any other future periods.

Summary of Significant Accounting Policies

There have been no changes to the Company's significant accounting policies during the three and six months ended June 30, 2015 as compared to the significant accounting policies described in the Company's audited consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2014.

Recent Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*, which outlines a single comprehensive model for entities to use in

accounting for revenue arising from contracts with customers. The standard's core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under the new standard, entities will apply the following five-step model when evaluating revenue contracts with customers:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when the entity satisfies a performance obligation

The standard will be effective for annual reporting periods beginning after December 15, 2017. Entities have the option of using either a full retrospective or a modified retrospective application in the adoption of this standard. The Company is evaluating the transition method and the impact of the adoption on its consolidated financial position, results of operations and cash flows.

2. STOCK-BASED COMPENSATION

Stock Plan

The Board of Directors adopted the 2014 Equity Incentive Plan (the "2014 Plan") in April 2013, and the stockholders approved it in June 2013. In October 2014, the Board of Directors approved certain amendments to the 2014 Plan. The 2014 Plan became effective on November 13, 2014. The 2014 Plan provides for the issuance of up to 5.5 million shares and will expire on November 13, 2024. As of June 30, 2015, 5.4 million shares remained available for future issuance.

Stock-Based Compensation Expense

The Company recognized stock-based compensation expenses as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Cost of revenue	\$284	\$219	\$526	\$424
Research and development	2,503	2,245	5,123	4,250
Selling, general and administrative	6,710	5,951	13,067	11,339
Total	\$9,497	\$8,415	\$18,716	\$16,013

Restricted Stock

The Company's restricted stock units ("RSUs") include time-based RSUs, performance-based RSUs ("PSUs") and market-based RSUs ("MSUs"). Time-based RSUs generally vest over one to four years, subject to continued employment with the Company. PSUs vest over four years and MSUs vest over ten years, subject to the achievement of pre-determined performance goals and continued employment with the Company. A summary of the RSUs is presented in the table below:

	Time-Based RSUs	Weighted-Average Grant Date Fair Value Per Share	PSUs	Weighted-Average Grant Date Fair Value Per Share	MSUs	Weighted-Average Grant Date Fair Value Per Share	Total	Weighted-Average Grant Date Fair Value Per Share
	(in thousands)		(in thousands)		(in thousands)		(in thousands)	
Outstanding at January 1, 2015	589	\$ 28.48	1,659	\$ 28.11	1,800	\$ 23.57	4,048	\$ 26.14
Granted (1)	252	\$ 49.63	659	\$ 48.53	-	\$ -	911	\$ 48.83
Performance adjustment (2)	-	\$ -	(130)	\$ 43.45	-	\$ -	(130)	\$ 43.45
Released	(199)	\$ 24.52	(481)	\$ 23.77	-	\$ -	(680)	\$ 23.99
Forfeited	(38)	\$ 34.91	(25)	\$ 28.27	-	\$ -	(63)	\$ 32.32
Outstanding at June 30, 2015	604	\$ 38.24	1,682	\$ 36.17	1,800	\$ 23.57	4,086	\$ 30.92

(1)

Amount for PSUs reflects the maximum number of shares that can be earned assuming the achievement of the highest level of performance conditions.

- (2) Amount for PSUs reflects the number of shares that have not been earned or may not be earned based on management's probability assessment.

The intrinsic value related to awards released for the three months ended June 30, 2015 and 2014 was \$8.4 million and \$8.3 million, respectively. The intrinsic value related to awards released for the six months ended June 30, 2015 and 2014 was \$33.9 million and \$18.5 million, respectively. As of June 30, 2015, the total intrinsic value of outstanding awards, including RSUs, PSUs and MSUs, was \$207.2 million, based on the closing stock price of \$50.71. As of June 30, 2015, unamortized compensation expense related to outstanding awards, including RSUs, PSUs and MSUs, was approximately \$89.6 million with a weighted-average remaining recognition period of approximately five years.

2015 PSUs:

In February 2015, the Board of Directors granted to executive officers 172,000 shares of PSUs which represent a target number of RSUs to be awarded based on the Company's average two-year (2015 and 2016) revenue growth rate compared against the analog industry's average two-year revenue growth rate as determined by the Semiconductor Industry Association ("2015 Executive PSUs"). The maximum number of 2015 Executive PSUs that an executive officer can ultimately earn is 300% of the target shares. 50% of the 2015 Executive PSUs will vest in February 2017 if the pre-determined performance goals are met and approved by the Compensation Committee. The remaining shares will vest over the following two years on a quarterly basis. The vesting is subject to the employees' continued employment with the Company.

In February 2015, the Board of Directors granted to non-executive employees 58,000 shares of PSUs which represent a target number of RSUs to be awarded based on the Company's 2016 revenue goals for certain regions or product line divisions, or the Company's average two-year (2015 and 2016) revenue growth rate compared against the analog industry's average two-year revenue growth rate as determined by the Semiconductor Industry Association ("2015 Non-Executive PSUs"). The maximum number of 2015 Non-Executive PSUs that an employee can ultimately earn is either 200% or 300% of the target shares, depending on the job classifications of the employees. 50% of the 2015 Non-Executive PSUs will vest in the first quarter of 2017 if the pre-determined performance goals are met and approved by the Compensation Committee. The remaining shares will vest over the following two years on an annual or quarterly basis. The vesting is subject to the employees' continued employment with the Company.

Stock Options

A summary of stock option activity is presented in the table below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
	(in thousands)		(in years)	(in thousands)
Outstanding at January 1, 2015	590	\$ 15.80	1.2	\$ 20,039
Exercised	(425)	\$ 15.71		
Forfeited and expired	(1)	\$ 15.96		
Outstanding at June 30, 2015	165	\$ 16.05	1.5	\$ 5,683
Options exercisable at June 30, 2015 and expected to vest	164	\$ 16.05	1.5	\$ 5,681
Options exercisable at June 30, 2015	159	\$ 16.18	1.5	\$ 5,481

Total intrinsic value of options exercised was \$12.9 million and \$4.9 million for the three months ended June 30, 2015 and 2014, respectively. Total intrinsic value of options exercised was \$15.4 million and \$11.8 million for the six months ended June 30, 2015 and 2014, respectively. The net cash proceeds from the exercise of stock options were \$6.7 million and \$8.6 million for the six months ended June 30, 2015 and 2014, respectively. As of June 30, 2015, unamortized compensation expense related to unvested options was not material.

Employee Stock Purchase Plan ("ESPP")

No shares were issued under the ESPP for the three months ended June 30, 2015 and 2014. For the six months ended June 30, 2015 and 2014, 30,000 and 43,000 shares, respectively, were issued under the ESPP. As of June 30, 2015, 4.7 million shares were available for future issuance.

The intrinsic value of shares issued was \$0.4 million and \$0.5 million for the six months ended June 30, 2015 and 2014, respectively. As of June 30, 2015, the unamortized expense was \$0.1 million, which will be recognized through the third quarter of 2015. The Black-Scholes model was used to value the employee stock purchase rights with the following weighted-average assumptions:

**Six Months
Ended June
30,
2015 2014**

Expected term (years)	0.5	0.5
Expected volatility	35.7 %	33.9 %
Risk-free interest rate	0.1 %	0.1 %
Dividend yield	1.2 %	-

Cash proceeds from the shares issued under the ESPP were \$1.1 million for both the six months ended June 30, 2015 and 2014.

3. ACQUISITION

On July 22, 2014 (the “Acquisition Date”), the Company acquired 100% of the outstanding capital stock of Sensima Technology SA (“Sensima”), a company based in Switzerland that develops magnetic sensor technologies for angle measurements as well as three-dimensional magnetic field sensing. The acquisition creates new opportunities with customers by offering enhanced solutions in power management for key industries such as automotive, industrial and cloud computing. As a result of the acquisition, Sensima became a subsidiary of the Company and its results of operations have been included in the Company’s consolidated financial statements subsequent to the acquisition.

Purchase Consideration

The fair value of the purchase consideration consists of the following (in thousands):

Cash paid at the Acquisition Date	\$ 11,735
Contingent consideration	2,507
Total	\$ 14,242

Cash paid at the Acquisition Date included \$1.2 million that was held in an escrow account for a one-year period, which was subject to Sensima's satisfaction of certain representations and warranties. The full amount was released from the escrow account on July 22, 2015.

The contingent consideration arrangement requires the Company to pay up to an additional \$8.9 million to former Sensima shareholders if Sensima achieves a new product introduction as well as certain product revenue and direct margin targets in 2016. The fair value of the contingent consideration at the Acquisition Date was \$2.5 million, which was estimated based on a probability-weighted analysis of possible future cash flow outcomes. The fair value of the contingent consideration is recorded in other long-term liabilities in the Condensed Consolidated Balance Sheets and is remeasured at the end of each reporting period, with any changes in fair value recorded in operating expense in the Condensed Consolidated Statements of Operations. Actual amounts that will ultimately be paid may differ from the obligations recorded.

The Company incurred \$0.6 million of transaction costs that were expensed as incurred to selling, general and administrative expenses.

Purchase Consideration Allocation

The estimated fair value of assets acquired and liabilities assumed is as follows (in thousands):

Cash	\$ 145
Other tangible assets acquired, net of liabilities assumed	42
Intangible assets:	
Know-how	1,018
Developed technologies	4,421

IPR&D	2,045
Total identifiable net assets acquired	7,671
Goodwill	6,571
Total net assets acquired	\$ 14,242

Intangible assets with finite lives include know-how and developed technologies with estimated useful lives of three to five years. The fair value of know-how was determined using the relief from royalty method, and the fair value of the developed technologies was determined using the income approach. Intangible assets with indefinite lives include IPR&D, which consists of incomplete R&D projects that had not reached technological feasibility as of the Acquisition Date. The fair value of the IPR&D assets was determined using the income approach.

The goodwill arising from the acquisition was primarily attributed to synergies which will enable the Company to develop advanced solutions in power management by combining with Sensima's magnetic sensor technologies. The goodwill is not expected to be deductible for tax purposes.

Equity Awards

On the Acquisition Date, the Board of Directors granted \$1.7 million of time-based RSUs (or 40,000 shares) to key Sensima employees who became employees of the Company. These awards vest over four years. In addition, the Board of Directors granted \$2.0 million of PSUs (or 47,000 shares) to these employees, with the right to earn up to a maximum of \$8.0 million based on the achievement of certain cumulative Sensima product revenue targets during the performance period from the Acquisition Date to July 22, 2019. 50% of the awards subject to each revenue goal will vest immediately when the pre-determined revenue goal is met and approved by the Compensation Committee, and the remaining shares will vest over the following two years. The vesting is subject to the employees' continued employment with the Company. These equity awards are considered arrangements for post-acquisition services and the related compensation expense is being recognized over the requisite service period.

Pro Forma Information (Unaudited)

Supplemental information of the Company's results of operations on a pro forma basis, as if the Sensima acquisition had been consummated on January 1, 2014, is presented as follows (in thousands, except per-share amounts):

	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
Revenue	\$68,461	\$128,545
Net income	\$5,605	\$13,914
Diluted net income per share	\$0.14	\$0.35

These pro forma results are not necessarily indicative of the Company's consolidated results of operations in future periods or the results that would have been realized had the Company acquired Sensima during the periods presented. The pro forma results include adjustments primarily related to Sensima's results of operations, amortization of intangible assets, stock-based compensation expense and the related tax effects.

4. BALANCE SHEET COMPONENTS***Inventories***

Inventories consist of the following (in thousands):

	June 30, 2015	December 31, 2014
Raw materials	\$12,562	\$7,298
Work in process	24,242	18,950
Finished goods	28,160	14,670
Total	\$64,964	\$40,918

Other Long-Term Assets

Other long-term assets consist of the following (in thousands):

	June 30, 2015	December 31, 2014
Deferred compensation plan assets	\$8,770	\$ 6,084
Prepaid expense	1,277	1,418
Other	1,019	955
Total	\$11,066	\$ 8,457

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	June 30, 2015	December 31, 2014
Dividends and dividend equivalents	\$8,389	\$ 6,080
Deferred revenue and customer prepayments	3,849	3,908
Stock rotation reserve	1,691	1,757
Other	4,473	2,958
Total	\$18,402	\$ 14,703

A roll-forward of the warranty reserve is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Balance at beginning of period	\$296	\$334	\$240	\$451
Warranty provision for product sales	81	68	155	128
Settlements made	(154)	-	(154)	(74)
Unused warranty provision	(18)	(112)	(36)	(215)
Balance at end of period	\$205	\$290	\$205	\$290

Other Long-Term Liabilities

Other long-term liabilities consist of the following (in thousands):

	June 30, 2015	December 31, 2014
Deferred compensation plan liabilities	\$8,878	\$ 6,177
Contingent consideration	2,507	2,507
Dividend equivalents	1,380	580

Other	844	940
Total	\$13,609	\$10,204

5. GOODWILL AND ACQUISITION-RELATED INTANGIBLE ASSETS, NET

There have been no changes in the balance of goodwill during the three and six months ended June 30, 2015.

Acquisition-related intangible assets consist of the following (in thousands):

	As of June 30, 2015		
	Gross Amount	Accumulated Amortization	Net Amount
Subject to amortization:			
Know-how	\$1,018	\$ (195)) \$ 823
Developed technologies	4,421	(1,211)) 3,210
Not subject to amortization:			
IPR&D	2,045	-	2,045
Total	\$7,484	\$ (1,406)) \$ 6,078

	As of December 31, 2014		
	Gross	Accumulated	Net
	Amount	Amortization	Amount
Subject to amortization:			
Know-how	\$1,018	\$ (93) \$ 925
Developed technologies	4,421	(579) 3,842
Not subject to amortization:			
IPR&D	2,045	-	2,045
Total	\$7,484	\$ (672) \$ 6,812

Amortization expense was recorded in cost of revenue in the Condensed Consolidated Statements of Operations and totaled \$0.4 million and \$0.7 million for the three and six months ended June 30, 2015, respectively. No amortization expense was recorded for the three and six months ended June 30, 2014.

Management currently expects the IPR&D will be completed in the next few quarters. Upon completion, the intangible assets will be subject to amortization over their useful lives.

As of June 30, 2015, the estimated future amortization expense of intangible assets subject to amortization is as follows (in thousands):

2015 (remaining six months)	\$ 733
2016	1,467
2017	1,467
2018 and thereafter	366
Total	\$4,033

6. NET INCOME PER SHARE

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted net income per share reflects the potential dilution that would occur if outstanding securities or other contracts to issue common stock were exercised or converted into common stock, and calculated using the treasury stock method.

The Company's outstanding RSUs contain forfeitable rights to receive dividend equivalents, which are accrued quarterly during the vesting periods of the RSUs and are payable to the employees when the awards vest. Dividend

equivalents accrued on the RSUs are forfeited if the employees do not fulfill their service requirement during the vesting periods. Accordingly, these awards are not treated as participating securities in the net income per share calculation.

The following table sets forth the computation of basic and diluted net income per share (in thousands, except per-share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Numerator:				
Net income	\$7,899	\$6,397	\$13,862	\$15,415
Denominator:				
Weighted-average outstanding shares used to compute basic net income per share	39,570	38,684	39,337	38,577
Effect of dilutive securities	1,175	924	1,333	986
Weighted-average outstanding shares used to compute diluted net income per share	40,745	39,608	40,670	39,563
Net income per share:				
Basic	\$0.20	\$0.17	\$0.35	\$0.40
Diluted	\$0.19	\$0.16	\$0.34	\$0.39

For the three and six months ended June 30, 2015, approximately 8,000 and 16,000 common stock equivalents, respectively, were excluded from the calculation of diluted net income per share because their inclusion would have been anti-dilutive. For the three and six months ended June 30, 2014, there were no anti-dilutive common stock equivalents.

7. SEGMENT AND GEOGRAPHIC INFORMATION

The Company operates in one reportable segment that includes the design, development, marketing and sale of high-performance power solutions for the cloud computing, telecommunications, industrial and automotive, and consumer markets. The Company's chief operating decision maker is its chief executive officer, who reviews financial information presented on a consolidated basis. The Company derives a majority of its revenue from sales to customers located outside North America, with geographic revenue based on the customers' ship-to locations.

The Company sells its products primarily through third-party distributors, value-added resellers and directly to original equipment manufacturers, original design manufacturers, and electronic manufacturing service providers. The following table summarizes those customers with sales greater than 10% of the Company's total revenue:

Customers	Three Months Ended June 30, 2015		Six Months Ended June 30, 2014	
	2015	2014	2015	2014
Distributor A	23 %	26 %	24 %	26 %
Distributor B	*	*	*	10 %

* Represents less than 10%.

The following table summarizes those customers with accounts receivable balances greater than 10% of the Company's total accounts receivable:

Customers	June 30, 2015		December 31, 2014	
	2015	2014	2015	2014
Distributor A	23 %	31 %	31 %	31 %
Distributor B	10 %	10 %	10 %	10 %

Both of the customers are third-party distributors. The Company's agreements with these distributors were made in the ordinary course of business and may be terminated with or without cause by these distributors with advance notice. Although the Company may experience a short-term disruption in the distribution of its products and a short-term decline in revenue if its agreement with either of these distributors was terminated, the Company believes that such termination would not have a material adverse effect on its financial statements because it would be able to engage alternative distributors, resellers and other distribution channels to deliver its products to end customers within a few quarters following the termination of an agreement with the distributor.

The following is a summary of revenue by geographic regions (in thousands):

Country or Region	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
China	\$53,450	\$43,931	\$99,252	\$80,789
Taiwan	10,143	9,638	21,172	18,701
Europe	5,317	4,574	10,432	9,165
Korea	5,109	3,890	9,354	6,626
Southeast Asia	3,336	1,407	7,075	3,421
Japan	2,412	1,713	4,297	3,854
United States	1,566	3,231	3,259	5,834
Other	83	52	113	107
Total	\$81,416	\$68,436	\$154,954	\$128,497

The following is a summary of revenue by product family (in thousands):

Product Family	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
DC to DC products	\$73,195	\$61,173	\$139,492	\$115,108
Lighting control products	8,221	7,263	15,462	13,389
Total	\$81,416	\$68,436	\$154,954	\$128,497

The following is a summary of long-lived assets by geographic regions (in thousands):

Country	June 30, 2015	December 31, 2014
China	\$36,828	\$37,147
United States	36,047	33,913
Bermuda	12,650	13,383
Other	353	339
Total	\$85,878	\$84,782

8. LITIGATION

The Company and certain of its subsidiaries are parties to actions and proceedings in the ordinary course of business, including litigation regarding its shareholders and its intellectual property, challenges to the enforceability or validity of its intellectual property, claims that the Company's products infringe on the intellectual property rights of others, and employment matters. These proceedings often involve complex questions of fact and law and may require the expenditure of significant funds and the diversion of other resources to prosecute and defend. The Company defends itself vigorously against any such claims.

O2 Micro

In May 2012, the United States District Court for the Northern District of California (the "District Court") issued an order finding O2 Micro International, Ltd. ("O2 Micro") liable for approximately \$9.1 million in attorneys' fees and non-taxable costs, plus interest, in connection with the patent litigation that the Company won in 2010. This award was in addition to the approximately \$0.3 million in taxable costs that the District Court had earlier ordered O2 Micro to pay to the Company in connection with the same lawsuit. In October 2012, O2 Micro appealed the District Court's

judgment to the United States Court of Appeals for the Federal Circuit (the “Federal Circuit”). In August 2013, the Federal Circuit affirmed O2 Micro’s liability for the full amount of the award. In September 2013, O2 Micro filed a petition for rehearing of that ruling, but the Federal Circuit denied O2 Micro’s petition for rehearing in October 2013.

In November 2013, the Company received a cash payment of \$9.5 million from O2 Micro. In January 2014, O2 Micro filed an appeal with the United States Supreme Court. Had O2 Micro been successful in obtaining a favorable ruling against the Company, the Company could have been liable to return a portion or all of the \$9.5 million to O2 Micro. Accordingly, the Company recorded the \$9.5 million as a current liability as of December 31, 2013.

In March 2014, the Supreme Court declined to hear the case. As O2 Micro had no further legal avenues to appeal, the Company released the current liability of \$9.5 million and recorded the award as a litigation benefit in the Condensed Consolidated Statements of Operations in the first quarter of 2014. In addition, the Company incurred additional legal fees of \$0.5 million in connection with the final resolution of the lawsuit.

9. CASH, CASH EQUIVALENTS AND INVESTMENTS

The following is a summary of the Company's cash and cash equivalents, short-term and long-term investments (in thousands):

	June 30,	December
	2015	31,
		2014
Cash, cash equivalents and investments:		
Cash	\$46,179	\$ 66,188
Money market funds	34,689	60,078
Certificates of deposit	23,093	22,778
U.S. treasuries and government agency bonds	127,073	89,674
Auction-rate securities backed by student-loan notes	5,375	5,389
Total	\$236,409	\$ 244,107

	June 30,	December
	2015	31,
		2014
Reported as:		
Cash and cash equivalents	\$80,868	\$ 126,266
Short-term investments	150,166	112,452
Long-term investments	5,375	5,389
Total	\$236,409	\$ 244,107

The contractual maturities of the Company's short-term and long-term available-for-sale investments are as follows (in thousands):

	June 30,	December
	2015	31,
		2014
Due in less than 1 year	\$ 118,344	\$ 91,335
Due in 1 - 5 years	31,822	21,117
Due in greater than 5 years	5,375	5,389
Total	\$ 155,541	\$ 117,841

The following tables summarize unrealized gains and losses related to our investments in marketable securities designated as available-for sale (in thousands):

As of June 30, 2015

	Adjusted Cost	Unrealized Gains	Unrealized Losses	Total Fair Value	Fair Value of Investments in Unrealized Loss Position
Money market funds	\$34,689	\$ -	\$ -	\$34,689	\$ -
Certificates of deposit	23,093	-	-	23,093	-
U.S. treasuries and government agency bonds	127,053	39	(19)	127,073	45,644
Auction-rate securities backed by student-loan notes	5,570	-	(195)	5,375	5,375
Total	\$190,405	\$ 39	\$ (214)	\$190,230	\$ 51,019

As of December 31, 2014

	Adjusted Cost	Unrealized Gains	Unrealized Losses	Total Fair Value	Fair Value of Investments in Unrealized Loss Position
Money market funds	\$60,078	\$ -	\$ -	\$60,078	\$ -
Certificates of deposit	22,778	-	-	22,778	-
U.S. treasuries and government agency bonds	89,689	14	(29)	89,674	35,062
Auction-rate securities backed by student-loan notes	5,570	-	(181)	5,389	5,389
Total	\$178,115	\$ 14	\$ (210)	\$177,919	\$ 40,451

10. FAIR VALUE MEASUREMENTS

The following table details the fair value measurement of the financial assets and liabilities (in thousands):

Fair Value Measurement at June 30, 2015				
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Money market funds	\$34,689	\$ 34,689	\$ -	\$ -
Certificates of deposit	23,093	-	23,093	-
U.S. treasuries and government agency bonds	127,073	-	127,073	-
Auction-rate securities backed by student-loan notes	5,375	-	-	5,375
Mutual funds under deferred compensation plan	4,846	4,846	-	-
Total	\$195,076	\$ 39,535	\$ 150,166	\$ 5,375
Liabilities:				
Contingent consideration	\$2,507	\$ -	\$ -	\$ 2,507
Total	\$2,507	\$ -	\$ -	\$ 2,507

Fair Value Measurement at December 31, 2014				
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Money market funds	\$60,078	\$ 60,078	\$ -	\$ -
Certificates of deposit	22,778	-	22,778	-
U.S. treasuries and government agency bonds	89,674	-	89,674	-
Auction-rate securities backed by student-loan notes	5,389	-	-	5,389
Mutual funds under deferred compensation plan	2,236	2,236	-	-
Total	\$180,155	\$ 62,314	\$ 112,452	\$ 5,389
Liabilities:				

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Contingent consideration	\$2,507	\$ -	\$ -	\$ 2,507
Total	\$2,507	\$ -	\$ -	\$ 2,507

The Company's level 3 assets consist of government-backed student loan auction-rate securities, with interest rates that reset through a Dutch auction every 7 to 35 days and which became illiquid in 2008. The following table provides a rollforward of the fair value of the auction-rate securities (in thousands):

Balance at January 1, 2015	\$5,389
Change in unrealized loss included in other comprehensive income	(14)
Ending balance at June 30, 2015	\$5,375

The Company determined the fair value of the auction-rate securities using a discounted cash flow model with the following assumptions:

	June 30, 2015		December 31, 2014			
Time-to-liquidity (months)	24		24			
Expected return	2.7%		2.9%			
Discount rate	3.9%	-	6.9%	4.0%	-	7.0%

The Company's level 3 liabilities consist of the contingent consideration related to the acquisition of Sensima in July 2014. The arrangement requires the Company to pay up to \$8.9 million to Sensima's former shareholders if Sensima achieves a new product introduction as well as certain product revenue and direct margin targets in 2016. The fair value of the contingent consideration at the Acquisition Date was \$2.5 million, which was estimated based on a probability-weighted analysis of possible future cash flow outcomes. Based on management's assessment, there were no changes in the fair value of the contingent consideration for the three and six months ended June 30, 2015.

11. DEFERRED COMPENSATION PLAN

The Company has a non-qualified, unfunded deferred compensation plan, which provides certain key employees, including executive management, with the ability to defer the receipt of compensation in order to accumulate funds for retirement on a tax deferred basis. The Company does not make contributions to the plan or guarantee returns on the investments. The Company is responsible for the plan's administrative expenses. Participants' deferrals and investment gains and losses remain as the Company's liabilities and the underlying assets are subject to claims of general creditors. As of June 30, 2015 and December 31, 2014, the plan assets totaled \$8.8 million and \$6.1 million, and the plan liabilities totaled \$8.9 million and \$6.2 million, respectively.

12. INCOME TAXES

The income tax provision for the three and six months ended June 30, 2015 was \$2.4 million, or 23.7% of the pre-tax income, and \$3.0 million, or 17.7% of the pre-tax income, respectively. The Company recorded a one-time net charge of \$2.7 million to the income tax provision related to the resolution of the income tax audits in the second quarter of 2015 (see "Income Tax Audits" below for further discussion). In addition to the impact of this charge, the effective tax rate differed from the federal statutory rate primarily because the foreign income was taxed at lower rates, and because of the benefit that the Company realized from stock option exercises and the release of RSUs, and from the release of an income tax reserve where the statute of limitations expired. In addition, the effective tax rate was impacted by changes in the valuation allowance.

The income tax provision for the three and six months ended June 30, 2014 was \$0.5 million, or 7.3% of pre-tax income, and \$0.8 million, or 4.7% of the pre-tax income, respectively. The effective tax rate differed from the federal statutory rate primarily because the Company's foreign income was taxed at lower rates, and because of the benefit that the Company realized as a result of stock option exercises and the release of RSUs. In addition, the effective tax rate was impacted by changes in the valuation allowance.

Unrecognized Tax Benefits

As of June 30, 2015, the Company had \$11.7 million of unrecognized tax benefits, \$2.2 million of which would affect its effective tax rate if recognized after considering the valuation allowance. As of December 31, 2014, the Company had \$16.4 million of unrecognized tax benefits, \$4.8 million of which would affect its effective tax rate if recognized after considering the valuation allowance.

Uncertain tax positions relate to the allocation of income and deductions among the Company's global entities and to the determination of the research and development tax credit. It is reasonably possible that over the next twelve-month period, the Company may experience increases or decreases in its unrecognized tax benefits. However, it is not possible to determine either the magnitude or the range of increases or decreases at this time.

The Company recognizes interest and penalties, if any, related to uncertain tax positions in its income tax provision. As of June 30, 2015 and December 31, 2014, the Company has approximately \$0.1 million and \$0.5 million of accrued interest related to uncertain tax positions, respectively, which were recorded in long-term tax liabilities in the Condensed Consolidated Balance Sheets.

Income Tax Audits

The Company is subject to examination of its income tax returns by the IRS and other tax authorities. The Company's U.S. Federal income tax returns for the years ended December 31, 2005 through December 31, 2007 were under examination by the IRS. In April 2011, the Company received from the IRS a Notice of Proposed Adjustment ("NOPA") relating to a cost-sharing agreement entered into by the Company and its international subsidiaries on January 1, 2004. In the NOPA, the IRS objected to the Company's allocation of certain litigation expenses between the Company and its international subsidiaries and the amount of "buy-in payments" made by the international subsidiaries to the Company in connection with the cost-sharing agreement, and proposed to increase the Company's U.S. taxable income according to a few alternative methodologies. In February 2012, the Company received a revised NOPA from the IRS ("Revised NOPA"). In this Revised NOPA, the IRS raised the same issues as in the NOPA issued in April 2011 but under a different methodology. Under the Revised NOPA, the largest potential federal income tax payment, if the IRS were to prevail on all matters in dispute, was \$10.5 million, plus interest and penalties, if any. The Company responded to the IRS Revised NOPA in May 2012. In June 2013, the IRS responded and continued to disagree with the Company's rebuttal. The Company met with the IRS Office of Appeals in 2014 and both parties had been in continuous discussions for a resolution of the matter in the first quarter of 2015. Meanwhile, the Company granted the IRS an extension of the statute of limitations for taxable years 2005 through 2007 to September 30, 2015.

The IRS also audited the research and development credits carried forward into year 2005 and the credits generated in the years 2005 through 2007. The Company received a NOPA from the IRS in February 2011, proposing to reduce the research and development credits generated in years 2005 through 2007 and the carryforwards, which would then reduce the value of such credits carried forward to subsequent tax years.

In April 2015, the Company reached a final resolution with the IRS in connection with the income tax audits for the years 2005 through 2007. Under the agreement, the Company made a one-time buy-in payment of \$1.2 million for taxes related primarily to the revaluation of a license for certain intellectual property rights of the Company to one of its international subsidiaries. This buy-in payment is final and no additional payment will be required with respect to the intellectual property license for the years under examination or for a previous or subsequent tax year. In addition, the Company expects to make a \$1.1 million related interest payment in the next few months as well as a \$0.2 million tax payment for the years 2008 to 2013. There were no penalties assessed on the Company as a result of the audits.

For the second quarter of 2015, the Company's income tax provision included a one-time net charge of approximately \$2.7 million reflecting the taxes and interest, partially offset by the reversal of previously accrued tax liabilities and valuation allowances. Of the \$2.7 million charge, approximately \$1.6 million relates to taxes and \$1.1 million to interest.

13. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table summarizes the changes in accumulated other comprehensive income (in thousands):

	Unrealized Losses on Auction-Rate Securities	Unrealized Gains (Losses) on Other Available-for-Sale Securities	Foreign Currency Translation Adjustments	Total
Balance as of January 1, 2015	\$ (181)	\$ (15)	\$ 6,007	\$5,811
Other comprehensive income before reclassifications	5	32		