Super Micro Computer, Inc.
Form 10-Q
February 06, 2013
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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 December 31, 2012

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 (State or other jurisdiction of incorporation or organization)	77-0353939 (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 January 24, 2013, there were 42,080,357 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.

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SUPER MICRO COMPUTER, INC.

QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2012

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PART I: FINANCIAL INFORMATION

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

	December 31, 2012	June 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$88,398	$80,826
Accounts receivable, net of allowances of $1,071 and $1,106 at December 31, 2012 and June 30, 2012, respectively (including amounts receivable from a related party of $618 and $1,036 at December 31, 2012 and June 30, 2012, respectively)	118,912	102,014
Inventory	243,597	276,599
Deferred income taxes-current	14,361	12,638
Prepaid income taxes	4,338	3,478
Prepaid expenses and other current assets	5,889	6,357
Total current assets	475,495	481,912
Long-term investments	2,650	2,923
Property, plant and equipment, net	96,712	97,419
Deferred income taxes-noncurrent	5,707	3,459
Other assets	3,003	3,390
Total assets	$583,567	$589,103
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable (including amounts due to a related party of $37,203 and $51,470 at December 31, 2012 and June 30, 2012, respectively)	$149,441	$173,991
Accrued liabilities	32,015	30,401
Income taxes payable	2,799	2,754
Short-term debt and current portion of long-term debt	29,195	13,362
Total current liabilities	213,450	220,508
Long-term debt-net of current portion	7,933	19,395
Other long-term liabilities	10,764	10,849
Total liabilities	232,147	250,752
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock and additional paid-in capital, $0.001 par value Authorized shares: 100,000,000 Issued shares: 42,514,990 and 42,034,416 at December 31, 2012 and June 30, 2012, respectively	150,870	143,806
Treasury stock (at cost), 445,028 shares at December 31, 2012 and June 30, 2012	(2,030)	(2,030)
Accumulated other comprehensive loss	(52)	(76)
Retained earnings	202,464	196,651
Total Super Micro Computer, Inc. stockholders' equity	351,252	338,351
Noncontrolling interest	168	—

Total stockholders' equity	351,420	338,351
Total liabilities and stockholders' equity	$583,567	$589,103

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2012	2011	2012	2011
Net sales (including related party sales of $2,898 and $2,643 in the three months ended December 31, 2012 and 2011, respectively, and $5,791 and $5,478 in the six months ended December 31, 2012 and 2011, respectively)	$291,487	$249,915	$562,194	$497,800
Cost of sales (including related party purchases of $38,683 and $38,340 in the three months ended December 31, 2012 and 2011, respectively, and $87,940 and $75,733 in the six months ended December 31, 2012 and 2011, respectively)	251,365	207,301	487,057	415,560
Gross profit	40,122	42,614	75,137	82,240
Operating expenses:				
Research and development	18,824	15,657	37,045	29,481
Sales and marketing	7,945	8,032	16,711	15,742
General and administrative	5,745	5,207	12,091	9,785
Total operating expenses	32,514	28,896	65,847	55,008
Income from operations	7,608	13,718	9,290	27,232
Interest and other income, net	7	20	22	37
Interest expense	(152)	(173)	(307)	(367)
Income before income tax provision	7,463	13,565	9,005	26,902
Income tax provision	2,549	4,791	3,192	9,636
Net income	$4,914	$8,774	$5,813	$17,266
Net income per common share:				
Basic	$0.12	$0.21	$0.14	$0.42
Diluted	$0.11	$0.20	$0.13	$0.39
Weighted-average shares used in calculation of net income per common share:				
Basic	41,893	40,555	41,780	40,456
Diluted	43,431	43,816	43,819	43,603

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2012	2011	2012	2011
Net income	$4,914	$8,774	$5,813	$17,266
Other comprehensive income, net of tax:				
Foreign currency translation gains	4	—	8	—
Unrealized gains on investments	16	—	16	95
Total other comprehensive income	20	—	24	95
Comprehensive income	$4,934	$8,774	$5,837	$17,361

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended December 31,	
	2012	2011
OPERATING ACTIVITIES:		
Net income	$5,813	$17,266
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	3,974	3,147
Stock-based compensation expense	5,812	4,837
Excess tax benefits from stock-based compensation	(785)	(1,084)
Allowance for doubtful accounts	75	25
Provision for inventory	6,313	3,902
Deferred income taxes	(3,982)	(421)
Exchange loss	278	—
Changes in operating assets and liabilities:		
Accounts receivable, net (including changes in related party balances of $418 and $212 during the six months ended December 31, 2012 and 2011, respectively)	(16,973)	4,880
Inventory	26,689	(4,551)
Prepaid expenses and other assets	699	(813)
Accounts payable (including changes in related party balances of $(14,267) and $(1,658) during the six months ended December 31, 2012 and 2011, respectively)	(25,094)	1,887
Income taxes payable, net	679	5,962
Accrued liabilities	2,203	1,345
Other long-term liabilities	(98)	508
Net cash provided by operating activities	5,603	36,890
INVESTING ACTIVITIES:		
Restricted cash	(12)	(29)
Proceeds from investments	300	1,675
Purchases of property, plant and equipment	(2,790)	(18,260)
Land deposit refund	—	2,868
Net cash used in investing activities	(2,502)	(13,746)
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	780	1,926
Minimum tax withholding paid on behalf of an officer for restricted stock awards	(1,022)	(1,109)
Excess tax benefits from stock-based compensation	785	1,084
Proceeds from debt	20,641	31,021
Repayment of debt	(16,673)	(23,962)
Payment of obligations under capital leases	(18)	(18)
Advances (payments) under receivable financing arrangements	(584)	441
Contributions from noncontrolling interests	168	—
Net cash provided by financing activities	4,077	9,383
Effect of exchange rate fluctuations on cash	394	(93)
Net increase in cash and cash equivalents	7,572	32,434
Cash and cash equivalents at beginning of period	80,826	69,943
Cash and cash equivalents at end of period	$88,398	$102,377

Supplemental disclosure of cash flow information:		
Cash paid for interest	$409	$376
Cash paid for taxes, net of refunds	$6,448	$3,485
Non-cash investing and financing activities:		
Accrued costs for property, plant and equipment purchases	$1,080	$2,114
Deposit applied to property acquisition	$—	$5,867

See accompanying notes to condensed consolidated financial statements.

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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 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 and Taiwan.

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, 2012 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 and six months ended December 31, 2012 are not necessarily indicative of the results that may be expected for future quarters or for the fiscal year ending June 30, 2013.

As of December 31, 2012, 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 and six months ended December 31, 2012 , $2,000 and $0 of net income attributable to Ablecom's interest was included in the Company's general and administrative expenses in the condensed consolidated statements of operations, respectively.

Reclassification

The amount previously presented for short-term debt in the condensed balance sheets as of June 30, 2012 has been reclassified to combine with short-term debt and current portion of long-term debt to conform with the current period presentation. The amount previously presented for allowance for sales returns in the condensed consolidated statements of cash flows for the six months ended December 31, 2011 has been reclassified to combine with accounts receivable to conform with the current period presentation.

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 debts are 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
- 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 are 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 June 2011, the FASB issued amended authoritative guidance associated with comprehensive income, which requires companies to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. In December 2011, the FASB deferred the effective date of the specific requirement to present items that are reclassified out of accumulated other comprehensive income to net income alongside their respective components of net income and other comprehensive income. The Company has adopted the provisions of this standard on a retrospective basis, except for the provision deferred. This adoption did not have an impact on our results of operations or financial position, but resulted in the presentation of a separate condensed consolidated statement of comprehensive income.

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% 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.

In the three and six months ended December 31, 2012, the Company granted options for the purchase of 502,620 and 1,064,400 shares under the 2006 Plan, respectively. As of December 31, 2012, the Company had 1,237,018 authorized shares available for future issuance under all of its equity incentive plans.

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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. 718,564 and 538,923 shares were vested as of December 31, 2012 and June 30, 2012, 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 and six months ended December 31, 2012 and 2011 was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2012	2011	2012	2011
Risk-free interest rate	0.81 %	1.10 %	0.65% - 0.81%	1.10% - 1.32%

Expected life	5.11 years	5.02 years	5.03 - 5.11 years	5.01 - 5.02 years
Dividend yield	— %	— %	— %	— %
Volatility	51.57 %	53.11 %	51.29% - 51.57%	53.11% - 53.72%
Weighted-average fair value	$4.17	$7.05	$4.91	$6.82

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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 and six months ended December 31, 2012 and 2011 (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2012	2011	2012	2011
Cost of sales	$224	$200	$464	$408
Research and development	1,632	1,328	3,262	2,600
Sales and marketing	389	362	793	640
General and administrative	664	617	1,293	1,189
Stock-based compensation expense before taxes	2,909	2,507	5,812	4,837
Income tax impact	(181)	(307)	(409)	(538)
Stock-based compensation expense, net	$2,728	$2,200	$5,403	$4,299

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 $1,494,000 and $1,205,000 of excess tax benefits accounted in the Company's additional paid-in capital in the six months ended December 31, 2012 and 2011, respectively. The Company had excess tax benefits that are classified as cash from financing activities of $785,000 and $1,084,000 in the six months ended December 31, 2012 and 2011, 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 six months ended December 31, 2012 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, 2012	11,302,228	$10.36	6.50	$ 66,062
Granted	1,064,400	10.98		
Exercised	(384,790)	2.03		
Forfeited or cancelled	(144,100)	14.76		
Outstanding at December 31, 2012	11,837,738	10.63	6.47	21,267
Options vested and expected to vest at December 31, 2012	11,421,088	10.52	6.37	21,173
Options vested and exercisable at December 31, 2012	8,063,393	9.12	5.41	20,200

The total pretax intrinsic value of options exercised was $2,190,000 and $3,068,000 for the three and six months ended December 31, 2012, respectively, and $1,709,000 and $2,134,000 for the three and six months ended December 31, 2011, respectively. As of December 31, 2012, 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 $21,788,000, which will be recognized over a weighted-average vesting period of approximately 2.34 years.

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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 six months ended December 31, 2012:

	Restricted Stock Awards	
	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Nonvested stock at July 1, 2012	362,782	$10.72
Granted	—	—
Vested	(179,641)	10.66
Forfeited	—	—
Nonvested stock at December 31, 2012	183,141	$10.79

The total pretax intrinsic value of restricted stock awards vested was $0 and $2,190,000 for the three and six months ended December 31, 2012, respectively, and $0 and $2,375,000 for the three and six months ended December 31, 2011, respectively. In the six months ended December 31, 2012 and 2011, upon vesting, 179,641 shares of restricted stock awards were net share-settled such that the Company withheld 83,857 shares 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 $1,022,000 and $1,109,000 in the six months ended December 31, 2012 and 2011, 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.

The total intrinsic value of the outstanding restricted stock awards was $1,868,000 as of December 31, 2012. There is no incremental fair value to be recognized as compensation expense in connection with the unvested restricted stock awards of 179,641 shares as of December 31, 2012.

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

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):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2012	2011	2012	2011
Basic net income per common share calculation				
Net income	$4,914	$8,774	$5,813	$17,266
Less: Undistributed earnings allocated to participating securities	(21)	(77)	(33)	(175)
Net income attributable to common shares—basic	$4,893	$8,697	$5,780	$17,091
Weighted-average number of common shares used to compute basic net income per common share	41,893	40,555	41,780	40,456
Basic net income per common share	$0.12	$0.21	$0.14	$0.42
Diluted net income per common share calculation				
Net income	$4,914	$8,774	$5,813	$17,266
Less: Undistributed earnings allocated to participating securities	(21)	(71)	(31)	(162)
Net income attributable to common shares—diluted	$4,893	$8,703	$5,782	$17,104
Weighted-average number of common shares used to compute basic net income per common share	41,893	40,555	41,780	40,456
Dilutive effect of options to purchase common stock	1,538	3,261	2,039	3,147
Weighted-average number of common shares used to compute diluted net income per common share	43,431	43,816	43,819	43,603
Diluted net income per common share	$0.11	$0.20	$0.13	$0.39

For the three and six months ended December 31, 2012 and 2011, 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 7,293,000 and 5,842,000 for the three and six months ended December 31, 2012, respectively, and 3,132,000 and 2,818,000 for the three and six months ended December 31, 2011, respectively.

Note 4. Balance Sheet Components (in thousands)

Inventory:

	December 31, 2012	June 30, 2012
Finished goods	$170,632	$203,498
Work in process	18,104	10,252
Purchased parts and raw materials	54,861	62,849

Total inventory	$243,597	$276,599

The Company recorded a provision for lower of costs or market and excess and obsolete inventory totaling $3,403,000 and $6,313,000 in the three and six months ended December 31, 2012, respectively, and $1,540,000 and $3,902,000 in the three and six months ended December 31, 2011, respectively.

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

Property, Plant, and Equipment:

	December 31, 2012	June 30, 2012
Land	$41,709	$41,709
Buildings	43,979	43,983
Building and leasehold improvements	6,951	6,780
Machinery and equipment	25,138	22,629
Furniture and fixtures	4,633	4,449
Purchased software	5,070	4,794
	127,480	124,344
Accumulated depreciation and amortization	(30,768)	(26,925)
Property, plant and equipment, net	$96,712	$97,419

Other Assets:

As of December 31, 2012, other assets consist primarily of a long-term prepaid royalty license of $1,620,000, an investment in a privately held company of $750,000 and restricted cash of $453,000. As of June 30, 2012, other assets consist primarily of a long-term prepaid royalty license of $1,745,000, an investment in a privately held company of $750,000 and restricted cash of $441,000. Restricted cash consists primarily of certificates of deposits pledged as security for one irrevocable letter of credit required by the landlord of its warehouse lease in Fremont, California, bank guarantees for import duty required by custom authority of Taiwan and bank guarantees required by the landlord of its office leases in the Netherlands.

Product Warranties:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2012	2011	2012	2011
Balance, beginning of period	$5,964	$4,400	$5,522	$4,710
Provision for warranty	3,384	2,955	6,492	5,148
Costs charged to accrual	(3,153)	(2,901)	(6,057)	(5,134)
Change in estimated liability for pre-existing warranties	32	287	270	17
Balance, end of period	$6,227	$4,741	$6,227	$4,741

Note 5. Long-term Investments

As of December 31, 2012 and June 30, 2012, the Company held $2,650,000 and $2,923,000, respectively, 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 December 31, 2012 and CAA3 at June 30, 2012. 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 salable in the auction, thereby losing the short-term liquidity previously provided by the auction process. As a result, 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 December 31, 2012 and June 30, 2012. 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 December 31, 2012, the discount rate, the time period until redemption and the estimated rate of return were 0.44%, 3 years and 1% to 3%, 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 was a recovery in fair value of its auction rate securities of $27,000 during the three and six months ended December 31, 2012 and $156,000 during the six months ended December 31, 2011, respectively. There was no change in fair value of its auction rate securities during the three months ended December 31, 2011. There was a cumulative total decline of $100,000 and $127,000 as of December 31, 2012 and June 30, 2012, respectively. That amount has been recorded as a component of other comprehensive income. As of December 31, 2012 and June 30, 2012, the Company has recorded an accumulated unrealized loss of $60,000 and $76,000, respectively, 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 and six months ended December 31, 2012, $300,000 of auction rate security were redeemed at par. During the three and six months ended December 31, 2011, $0 and $1,675,000 of the auction rate securities were redeemed at par, respectively.

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 does not have observable inputs for its auction rate securities as of December 31, 2012 and June 30, 2012. Refer to Note 1 of Notes to 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 December 31, 2012 and June 30, 2012 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):

December 31, 2012	Level 1	Level 2	Level 3	Asset at Fair Value
Money market funds	$310	$—	$—	$310
Auction rate securities	—	—	2,650	2,650

Total	$310	$—	$2,650	$2,960

June 30, 2012	Level 1	Level 2	Level 3	Asset at Fair Value
Money market funds	$411	$—	$—	$411
Auction rate securities	—	—	2,923	2,923
Total	$411	$—	$2,923	$3,334

The above table excludes $87,847,000 and $80,415,000 of cash and $753,000 and $500,000 of certificates of deposit held by the Company as of December 31, 2012 and June 30, 2012, respectively. There were no transfers between Level 1, Level 2 or Level 3 securities in the three and six months ended December 31, 2012 and 2011.

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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 and six months ended December 31, 2012 and 2011 (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2012	2011	2012	2011
Balance as of beginning of period	$2,923	$3,669	$2,923	$5,188
Total realized gains or (losses) included in net income	—	—	—	—
Total unrealized gains or (losses) included in other comprehensive income	27	—	27	156
Sales and settlements at par	(300)	—	(300)	(1,675)
Transfers in and/or out of Level 3	—	—	—	—
Balance as of end of period	$2,650	$3,669	$2,650	$3,669

The Company's short-term certificates of deposit as of December 31, 2012 and June 30, 2012 were $59,000, and are grouped in prepaid expense and other assets.

The following is a summary of the Company's long-term investments as of December 31, 2012 and June 30, 2012 (in thousands):

	December 31, 2012			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Auction rate securities	$2,750	$—	$(100)	$2,650

	June 30, 2012			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Auction rate securities	$3,050	$—	$(127)	$2,923

The Company measures the fair value of outstanding debts for disclosure purposes on a recurring basis. As of December 31, 2012 and June 30, 2012, short-term and long-term debt of $37,128,000 and $32,757,000, respectively, are reported at amortized cost. These outstanding debts are 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 debts approximates amortized cost.

Note 7. Advances from Receivable Financing Arrangements

The Company has accounts receivable financing agreements with certain financing companies whereby the financing companies pay the Company for sales transactions that have been pre-approved by these financing companies. The financing companies then collect the receivable from the customer. Such sales transactions totaled $1,713,000 and $3,438,000 for the three and six months ended December 31, 2012, respectively, and $5,809,000 and $13,742,000 for the three and six months ended December 31, 2011, respectively. At December 31, 2012 and June 30, 2012, $34,000 and $618,000, respectively, remained uncollected from customers subject to these arrangements. Such amounts have been recorded as advances from receivable financing arrangements as the Company has obligations to repurchase inventories seized by the financing companies from defaulting customers. Historically, the Company has not been required to repurchase inventories from the financing companies. These financing arrangements bear interest at rates ranging from 0.80% to 1.0% and 0.80% to 1.15% per month depending on the customers' payment terms at December 31, 2012 and June 30, 2012, respectively.

Note 8. Short-term and Long-term Obligations

Short-term and long-term obligations as of December 31, 2012 and June 30, 2012 consisted of the following (in thousands):

	December 31, 2012	June 30, 2012
Lines of credit	$10,899	$20,624

Building term loans	26,229	12,133
Total	37,128	32,757
Current portion	(29,195)	(13,362)
Long-term portion	$7,933	$19,395

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Activities under Revolving Lines of Credit and Term Loans

Bank of America

In June 2010, the Company obtained a revolving line of credit from Bank of America, N.A. ("Bank of America") totaling $25,000,000 that matures on June 15, 2013 with an interest rate at the LIBOR rate plus 1.50% per annum. The Company used $18,553,000 of the line of credit to purchase three buildings in San Jose, California. In December 2010, the Company repaid $13,854,000 of the line of credit by obtaining a new term loan from Wells Fargo Bank for $13,875,000 and the remaining $4,699,000 of the line of credit has been extended to be paid-off by June 15, 2013. In October 2011, the Company paid off $13,413,000 of the outstanding term loan with Wells Fargo Bank with no prepayment penalty.

In October 2011, the Company entered into a second amendment to the credit agreement with Bank of America which provided for (i) a $40,000,000 revolving line of credit facility that replaced the existing $25,000,000 revolving line of credit and (ii) a five-year $14,000,000 term loan facility to pay off the outstanding term loan of $13,413,000 with Wells Fargo Bank. The term loan is secured by the three buildings purchased in San Jose, California in June 2010 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.

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 0.21% at December 31, 2012. For borrowings denominated in Taiwanese dollars, the interest rate is equal to the lender's established interest rate which is adjusted monthly. In the six months ended December 31, 2011, the Company drew an additional $7,123,000 from the revolving line of credit with Bank of America for the construction of facilities in Taiwan and repaid $9,898,000. In the six months ended December 31, 2012, the Company drew an additional $5,600,000 from the revolving line of credit with Bank of America for its inventory purchases in Taiwan and repaid $5,246,000.

As of December 31, 2012 and June 30, 2012, the total outstanding borrowing under the Bank of America term loan was $10,733,000 and $12,133,000, respectively. The total outstanding borrowings under the Bank of America line of credit were $10,899,000 and $10,562,000 as of December 31, 2012 and June 30, 2012, respectively. The interest rates for these loans ranged from 1.26% to 1.71% per annum at December 31, 2012 and 1.29% to 1.81% per annum at June 30, 2012, respectively. As of June 30, 2012, borrowings denominated in Taiwanese dollars under the Bank of America line of credit were translated to U.S. dollars of $4,863,000. As of December 31, 2012, the Company paid off the borrowings denominated in Taiwanese dollars under the Bank of America line of credit. As of December 31, 2012, the unused revolving line of credit with Bank of America was $29,101,000.

China Trust Bank

In October 2011, the Company also obtained an unsecured revolving line of credit from China Trust Bank totaling NT$300,000,000 Taiwanese dollars, or $9,898,000 U.S. dollars equivalents, that matured on July 31, 2012 with an interest rate equal to the lender’s established interest rate plus 0.5% which was adjusted monthly. In fiscal year 2012, the Company drew the full amount from this revolving line of credit to repay $9,898,000 of the revolving line of credit to Bank of America. The interest rate for the borrowing under this line of credit was 1.41% per annum at June 30, 2012.

In July 2012, the Company entered into a NT$450,000,000 Taiwanese dollars, or $14,912,000 U.S. dollars equivalents, credit facility with China Trust Bank. The credit facility provides for a one-year term loan. In July 2012, the Company drew NT$150,000,000 Taiwanese dollars, or $5,014,000 U.S. dollars equivalents, under the term loan. In addition, the Company borrowed under the term loan to pay down the outstanding revolving line of credit of NT$300,000,000 Taiwanese dollars, or $10,027,000 U.S. dollars equivalents. The term loan is secured by the land and building located in Bade, Taiwan with an interest rate at the lender's established interest rate plus 0.3% which is adjusted monthly. The term loan matures on July 31, 2013. The Company used the proceeds from this term loan to repay $4,863,000 of the revolving line of credit to Bank of America. The interest rate for the term loan was 1.18% per annum at December 31, 2012. The total outstanding borrowings under the China Trust Bank term loan was denominated in Taiwanese dollars and was translated into U.S. dollars of $15,496,000 as of December 31, 2012.

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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.

As of December 31, 2012 and June 30, 2012, the total assets except for the three buildings purchased in San Jose, California in June 2010 and the land and building located in Bade, Taiwan collateralizing the line of credit with Bank of America were $537,724,000 and $571,060,000, respectively. As of December 31, 2012 and June 30, 2012, total assets collateralizing the term loan with Bank of America were $17,928,000 and $18,043,000, respectively. As of December 31, 2012, the Company was in compliance with all financial covenants associated with the credit agreement with Bank of America.

As of December 31, 2012, the land and building located in Bade, Taiwan collateralizing the term loan with China Trust Bank was $27,915,000. There are no financial covenants associated with the term loan with China Trust Bank at December 31, 2012.

Note 9. 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, and 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 December 31, 2012.

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 the 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 $38,683,000 and $87,940,000 and sold products to Ablecom totaling $2,898,000 and $5,791,000 for the three and six months ended December 31, 2012, respectively. The Company purchased products from Ablecom totaling $38,340,000 and $75,733,000 and sold products to Ablecom totaling $2,643,000 and $5,478,000 for the three and six months ended December 31, 2011, respectively.

Amounts owed to the Company by Ablecom as of December 31, 2012 and June 30, 2012, were $618,000 and $1,036,000, respectively. Amounts owed to Ablecom by the Company as of December 31, 2012 and June 30, 2012, were $37,203,000 and $51,470,000, respectively. For the three and six months ended December 31, 2012, the Company paid Ablecom the majority of invoiced dollars between 55 and 100 days of invoice. For the three and six months ended December 31, 2012, the Company paid $1,483,000 and $2,867,000, respectively, for tooling assets and miscellaneous costs to Ablecom. For the three and six months ended December 31, 2011, the Company paid $1,760,000 and $2,735,000, 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 $62,761,000 and $63,151,000 at December 31, 2012 and June 30, 2012, 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 owns 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. As of December 31, 2012, the accounts of the Management Company have been 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 and six months ended December 31, 2012, $2,000 and $0, respectively, of net income attributable to Ablecom's interest was included in the Company's general and administrative expenses in the condensed consolidated statements of operations.

Note 10. Income Taxes

The Company recorded provisions for income taxes of $2,549,000 and $3,192,000 for the three and six months ended December 31, 2012, respectively, and $4,791,000 and $9,636,000 for the three and six months ended December 31, 2011. The effective tax rate was 34.2% and 35.4% for the three and six months ended December 31, 2012, respectively, and 35.3% and 35.8% for the three and six months ended December 31, 2011, respectively. The effective tax rates are estimated to be lower than the federal statutory rate primarily due to the release of unrecognized tax benefit as a result of lapse of statute of limitation in the foreign jurisdiction, in part offset by the impact of stock option expenses and the expiration of federal research and development tax credits on December 31, 2012.

As of December 31, 2012, the Company had a liability for gross unrecognized tax benefits of $8,754,000, substantially all of which, if recognized, would affect the Company's effective tax rate. During the three and six months ended December 31, 2012, there was no material change in the total amount of the liability for gross unrecognized tax benefits.

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 December 31, 2012, the Company had accrued $1,033,000 for the payment of interest and penalties relating to unrecognized tax benefits. During the three and six months ended December 31, 2012, there was no material change in the total amount of the liability for accrued interest and penalties related to the unrecognized tax benefits.

The Company is subject to U.S. federal income tax as well as income taxes in many state and foreign jurisdictions. In September 2011, the Internal Revenue Service met with the Company to commence a pre-examination of the federal income tax returns for tax years 2007 through 2009. The Company continues to work towards a resolution which may be reached during the next twelve months. While management believes that the Company has adequately provided for all tax positions, amounts asserted by tax authorities could be greater or less than the Company’s current position. Accordingly, the Company’s provision on federal, state and foreign tax related matters to be recorded in the future may change as revised estimates are made or the underlying matters are settled or otherwise resolved. The Company does not expect its unrecognized tax benefits to change materially over the next 12 months. The statutes of limitation in state jurisdictions remain open in general for tax years 2007 through 2013. The major foreign jurisdictions remain open for examination in general for tax years 2003 through 2013.

On January 2, 2013, the President signed into law The American Taxpayer Relief Act of 2012. Under prior law, a taxpayer was entitled to a research tax credit for qualifying amounts paid or incurred on or before December 31, 2011. The 2012 Taxpayer Relief Act extends the research credit for two years to December 31, 2013. The extension of the research credit is retroactive and includes amounts paid or incurred after December 31, 2011. As a result of the retroactive extension, the Company expects to recognize a benefit of approximately $2,486,000 for qualifying amounts incurred in the calendar year 2012. The benefit will be recognized in the period of enactment, which is the third quarter of fiscal year 2013.

Note 11. Commitments and Contingencies

Litigation and Claims — From time to time, 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 2016. As of December 31, 2012, these remaining non-cancellable commitments were $289,326,000, which will be paid through December 2015.

Included in the above non-cancellable commitments are hard disk drive purchase commitments totaling approximately $157,860,000, which will be paid through March 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. The Company has been negotiating the purchase price with the suppliers on an ongoing basis based upon market based rates.

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Note 12. 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 and six months ended December 31, 2012 and 2011, of net sales by geographic region (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2012	2011	2012	2011
Net sales:				
United States	$156,533	$141,770	$291,359	$295,790
Europe	66,874	57,573	130,323	104,148
Asia	60,413	45,008	125,097	84,154
Other	7,667	5,564	15,415	13,708
	$291,487	$249,915	$562,194	$497,800

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

	December 31, 2012	June 30, 2012
Long-lived assets:		
United States	$62,887	$63,709
Asia	33,359	33,257
Europe	466	453
	$96,712	$97,419

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

	Three Months Ended December 31,				Six Months Ended December 31,			
	2012		2011		2012		2011	
	Amount	Percent of Net Sales	Amount	Percent of Net Sales	Amount	Percent of Net Sales	Amount	Percent of Net Sales
Server systems	$126,117	43.3 %	$109,961	44.0 %	$232,966	41.4 %	$207,580	41.7 %
Subsystems and accessories	165,370	56.7 %	139,954	56.0 %	329,228	58.6 %	290,220	58.3 %
Total	$291,487	100.0 %	$249,915	100.0 %	$562,194	100.0 %	$497,800	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 and six months ended December 31, 2012 and 2011. No customer accounted for 10% or more of accounts receivable as of December 31, 2012 and June 30, 2012.

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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 end-to-end green computing solutions for Enterprise IT, Datacenter, Cloud Computing, High Performance Computing, or HPC, and Embedded Systems worldwide. Our solutions include a range of complete rackmount, workstation, blade, storage, GPU systems, networking devises and full rack solutions, as well as subsystems and accessories which can be used by distributors, OEMs and end customers to assemble server systems. To date, we have generated the majority of our net sales from subsystems. In recent years our growth in net sales has been driven by the growth in the market for application optimized server systems. Net sales of optimized servers were $126.1 million and $233.0 million for the three and six months ended December 31, 2012, respectively, and $110.0 million and $207.6 million for the three and six months ended December 31, 2011, respectively. Net sales of subsystems and accessories were $165.4 million and $329.2 million for the three and six months ended December 31, 2012, respectively, and $140.0 million and $290.2 million for the three and six months ended December 31, 2011, respectively. The increase in our net sales in the three and six months ended December 31, 2012 compared with the three and six months ended December 31, 2011 was primarily due to increased sales in subsystems and accessories and sales in server solutions with Intel's DP/QP Sandy Bridge processors including storage, Micro Cloud, FatTwin and GPU solutions.

We commenced operations in 1993 and have been profitable every year since inception. Our net sales were $291.5 million and $562.2 million for the three and six months ended December 31, 2012, respectively, and $249.9 million and $497.8 million in the three and six months ended December 31, 2011, respectively. Our net income was $4.9 million and $5.8 million for the three and six months ended December 31, 2012, respectively, and $8.8 million and $17.3 million for the three and six months ended December 31, 2011, respectively. Our decrease in profitability in the three and six months ended December 31, 2012 was primarily attributable to a decrease in our gross profit resulting primarily from higher sales of storage solutions which contain higher content of lower margin hard disk drives and memory, higher research and development expenses incurred for new products relating to the Intel's DP/QP Sandy Bridge processors and FatTwin products and costs related to expansion of our operations overseas and in the United States.

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 55.0% and 54.8% of our net sales from products sold to distributors and derived 45.0% and 45.2% from sales to OEMs and to end customers for the three and six months ended December 31, 2012, respectively, and 55.8% of our net sales from products sold to distributors and 44.2% from sales to OEMs and to end customers for both three and six months ended December 31, 2011. None of our customers accounted for 10% or more of our net sales in the three and six months ended December 31, 2012 and 2011. We derived 53.7% and 51.8% of our net sales from customers in the United States for the three and six months ended December 31, 2012, respectively, and 56.7% and 59.4% for the three and six months ended December 31, 2011, respectively. We derived 46.3% and 48.2% of our net sales from customers outside the United States for the three and six months ended December 31, 2012, respectively, and 43.3% and 40.6% for the three and six months ended December 31, 2011, respectively.

We perform the majority of our research and development efforts in-house. Research and development expenses represented 6.5% of our net sales for the three and six months ended December 31, 2012, and 6.3% and 5.9% for the three and six months ended December 31, 2011, 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 2013, we expect to continue to invest in expanding our operations both in San Jose, California and our subsidiaries in the Netherlands and Taiwan in order to support our growth. We have increased our research and development operations in

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Taiwan and increased our manufacturing and service operations in the Netherlands and Taiwan to support our European and Asian customers. One of our key suppliers is Ablecom, a related party, which supplies us with contract design and manufacturing support. For the three and six months ended December 31, 2012, our purchases from Ablecom represented 15.4% and 18.1%, respectively, compared to 18.5% and 18.2% of our cost of sales for the three and six months ended December 31, 2011, 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 and do not have any current plans to reduce our reliance on Ablecom product purchases. 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 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 second quarter of fiscal year 2013:

- Net cash provided by operating activities was $32.2 million and $5.6 million during the three and six months ended December 31, 2012, respectively, and $11.8 million and $36.9 million during the three and six months ended December 31, 2011, respectively. Our cash and cash equivalents, together with our investments, were $91.1 million at the end of the second quarter of fiscal year 2013, compared with $83.8 million at the end of fiscal year 2012. The increase in our cash and cash equivalents, together with our investments at the end of the second quarter of fiscal year 2013 was primarily due to an increase in cash provided by operating activities, primarily a reduction in inventory partially offset by a reduction in accounts payable, and an increase in cash provided by financing activities, offset in part by an increase in cash used by investing activities.

- Days sales outstanding in accounts receivable ("DSO") at the end of the second quarter of fiscal year 2013 was 37 days, compared with 33 days at the end of fiscal year 2012. The increase in DSO was primarily due to an increase in net sales to customers with longer net payment terms in the second quarter of fiscal year 2013.

- Our inventory balance was $243.6 million at the end of the second quarter of fiscal year 2013, compared with $276.6 million at the end of fiscal year 2012. Days sales of inventory ("DSI") at the end of the second quarter of fiscal year

2013 was 93 days, compared with 100 days at the end of fiscal year 2012. The decrease in our inventory balance and DSI at the end of the second quarter of fiscal year 2013 was in part due to increased sales in hard disk drives as we have aggressively promoted hard disk drives bundling with server systems resulting from the purchase commitment agreements with certain suppliers and increased sales in server solutions.

- Our purchase commitments with contract manufacturers and suppliers were $289.3 million at the end of the second quarter of fiscal year 2013 and $355.6 million at the end of fiscal year 2012.

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Included in the above non-cancellable commitments are hard disk drive purchase commitments totaling approximately $157.9 million, which will be paid through March 2014. We 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 we are 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. We have been negotiating the purchase price with the suppliers on an ongoing basis based upon market based rates.

In the second quarter of fiscal year 2013, the profitability of our sales of subsystems and accessories and server systems increased from the first quarter of fiscal year 2013 primarily due to more stable pricing for hard disk drives and memory in the second quarter of fiscal year 2013. We expect that hard disk drives and memory pricing will continue to be more stable and have less of an impact on our net income in the following quarters. See "Liquidity and Capital Resources - Contractual Obligations" for more information about our purchase commitments.

Fiscal Year

Our fiscal year ends on June 30. References to fiscal year 2013, for example, refer to the fiscal year ending June 30, 2013.

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 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 commissions 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.

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Interest and other income, net. Interest and other income, net represents the net of our interest income on investments or interest expense on the building loans or letters of credit for our owned facilities offset by interest earned on our 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, the Netherlands and Taiwan. Our effective tax rate differs from the statutory rate primarily due to research and development tax credits and the domestic production activities deduction 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 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 December 31, 2012 and June 30, 2012, we had deferred revenue of $0.2 million and $0.9 million and related deferred product costs of $0.1 million and $0.8 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. If management were to make different judgments or utilize different estimates, material differences in the amount of our reported operating expenses could result. 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.

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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 $6.2 million as of December 31, 2012, compared with $5.5 million as of June 30, 2012. The provision for warranty reserve was $3.4 million and $6.5 million in the three and six months ended December 31, 2012, respectively, and $3.0 million and $5.1 million in the three and six months ended December 31, 2011, respectively. Our estimates and assumptions used have been historically close to actual. The change in estimated liability for pre-existing warranties was $32,000 and $0.3 million in the three and six months ended December 31, 2012, respectively, and $0.3 million and $17,000 in the three and six months ended December 31, 2011, respectively. As a result of our increase in warranty claims and cost of servicing warranty claims in the three and six months ended December 31, 2012, the provision for warranty reserve increased $0.4 million and $1.3 million compared to the three and six months ended December 31, 2011. 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.

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 $3.4 million and $6.3 million in the three and six months ended December 31, 2012, respectively, and $1.5 million and $3.9 million in the three and six months ended December 31, 2011, 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 10 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 $2.9 million and $5.8 million for the three and six months ended December 31, 2012, respectively, and $2.5 million and $4.8 million for the three and six months ended December 31, 2011, respectively.

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As of December 31, 2012, 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 $21.8 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. In June 2009, the Financial Accounting Standards Board ("FASB") issued authoritative guidance on the consolidation of variable interest entities, which is effective for fiscal years beginning after November 15, 2009 and interim periods therein and thereafter. The new guidance requires revised evaluations of whether entities represent variable interest entities, ongoing assessments of control over such entities, and additional disclosures for variable interests. We adopted this standard and have analyzed our relationship with Ablecom and its subsidiaries (collectively "Ablecom"). We have concluded that 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 December 31, 2012, 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 and six months ended December 31, 2012, $2,000 and $0 of net income attributable to Ablecom's interest was included in our general and administrative expenses in the condensed consolidated statements of operations, respectively.

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Results of Operations

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2012	2011	2012	2011
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	86.2	82.9	86.6	83.5
Gross profit	13.8	17.1	13.4	16.5
Operating expenses:				
Research and development	6.5	6.3		