

Ubiquiti Networks, Inc.
Form 10-Q
November 09, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarter ended September 30, 2012

OR

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

For the transition period from to

Commission File No. 001-35300

UBIQUITI NETWORKS, INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

32-0097377
(I.R.S. Employer
Identification No.)

2580 Orchard Parkway, San Jose, CA 95131
(Address of principal executive offices, Zip Code)

(408) 942-3085
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (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 Act). Yes No

As of November 5, 2012, 88,543,801 shares of Common Stock, par value \$0.001, were issued and outstanding.

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QUARTERLY REPORT ON FORM 10-Q

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Table of Contents**PART I: FINANCIAL INFORMATION****Item 1. Financial Statements****UBIQUITI NETWORKS, INC.****Condensed Consolidated Balance Sheets****(In thousands, except share data)****(Unaudited)**

	September 30, 2012	June 30, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 132,486	\$ 122,060
Accounts receivable, net of allowance for doubtful accounts of \$1,765 and \$1,266, respectively	60,877	75,644
Inventories	7,632	7,734
Current deferred tax asset	882	882
Prepaid expenses and other current assets	2,428	1,577
Total current assets	204,305	207,897
Property and equipment, net	5,042	4,471
Long-term deferred tax asset	232	232
Other long term assets	1,577	1,136
Total assets	\$ 211,156	\$ 213,736
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 25,465	\$ 26,450
Customer deposits	384	235
Deferred revenues	798	805
Income taxes payable	3,284	946
Debt - short-term	5,008	6,968
Other current liabilities	10,031	17,031
Total current liabilities	44,970	52,435
Long-term taxes payable	7,727	7,727
Debt - long-term	44,843	22,623
Total liabilities	97,540	82,785
Commitments and contingencies (Note 9)		
Stockholders equity:		
Preferred stock \$0.001 par value; 50,000,000 shares authorized; none issued		
Common stock \$0.001 par value; 150,000,000 shares authorized: 88,914,077 and 92,049,978 outstanding at September 30, 2012 and June 30, 2012, respectively	89	92
Additional paid in capital	129,725	128,981
Treasury stock 42,251,824 and 39,079,910 shares held in treasury at September 30, 2012 and June 30, 2012, respectively	(100,770)	(69,515)
Retained earnings	84,572	71,393

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Total stockholders' equity	113,616	130,951
Total liabilities and stockholders' equity	\$ 211,156	\$ 213,736

See notes to condensed consolidated financial statements.

Table of Contents**UBIQUITI NETWORKS, INC.****Condensed Consolidated Statements of Operations****(In thousands, except per share amounts)****(Unaudited)**

	Three Months Ended September 30,	
	2012	2011
Revenues	\$ 61,535	\$ 79,167
Cost of revenues(1)	36,515	46,154
Gross profit	25,020	33,013
Operating expenses:		
Research and development(1)	4,711	3,369
Sales, general and administrative(1)	4,534	2,144
Total operating expenses	9,245	5,513
Income from operations	15,775	27,500
Interest expense and other, net	(86)	(634)
Income before provision for income taxes	15,689	26,866
Provision for income taxes	2,510	5,373
Net income	13,179	21,493
Preferred stock cumulative dividend and accretion of cost of preferred stock		(102,727)
Net income (loss) attributable to common stockholders diluted	\$ 13,179	\$ (81,234)
Net income (loss) per share of common stock:		
Basic	\$ 0.14	\$ (1.30)
Diluted	\$ 0.14	\$ (1.30)
Weighted average shares used in computing net income (loss) per share of common stock:		
Basic	90,970	62,717
Diluted	92,925	62,717
(1) Includes stock-based compensation as follows		
Cost of revenues	\$ 81	\$ 6
Research and development	266	116
Sales, general and administrative	309	229

See notes to condensed consolidated financial statements.

Table of Contents**UBIQUITI NETWORKS, INC.****Condensed Consolidated Statements of Cash Flows****(In thousands)****(Unaudited)**

	Three Months Ended September 30,	
	2012	2011
Cash Flows from Operating Activities:		
Net income	\$ 13,179	\$ 21,493
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	349	121
Provision for inventory obsolescence	25	
Stock-based compensation	656	351
Provision for doubtful accounts	500	75
Changes in operating assets and liabilities:		
Accounts receivable	14,267	(8,345)
Inventories	77	(2,711)
Deferred cost of revenues		(26)
Prepaid expenses and other assets	(1,260)	
Accounts payable	(336)	3,945
Taxes payable	2,338	2,907
Deferred revenues	(7)	514
Accrued liabilities and other	(6,093)	(2,605)
Net cash provided by operating activities	23,695	15,719
Cash Flows from Investing Activities:		
Purchase of property and equipment and other long-term assets	(2,349)	(205)
Net cash used in investing activities	(2,349)	(205)
Cash Flows from Financing Activities:		
Proceeds from term loan, net	20,833	34,879
Repayments on term loan balance	(583)	
Repurchases of common stock	(31,258)	
Repurchase of Series A convertible preferred stock		(40,000)
Payment of convertible subordinated promissory notes		(34,000)
Proceeds from exercise of stock options	102	143
Tax withholdings related to net share settlements of restricted stock units	(14)	
Payment of deferred offering costs		(321)
Net cash used in financing activities	(10,920)	(39,299)
Net increase (decrease) in cash and cash equivalents	10,426	(23,785)
Cash and cash equivalents at beginning of period	122,060	76,361
Cash and cash equivalents at end of period	\$ 132,486	\$ 52,576

See notes to condensed consolidated financial statements.

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UBIQUITI NETWORKS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 BUSINESS AND BASIS OF PRESENTATION

Business Ubiquiti Networks, Inc. was incorporated in the State of California in 2003 as Pera Networks, Inc. and commenced its current operations in 2005 and changed its name to Ubiquiti Networks, Inc. at that time. In June 2010, the Company changed its state of incorporation to Delaware by merging with and into Ubiquiti Networks, Inc., a Delaware corporation.

Ubiquiti Networks, Inc. and its wholly owned subsidiaries (collectively, Ubiquiti or the Company) is a product driven company that leverages innovative proprietary technologies to deliver networking solutions to both startup and established network operators and service providers.

On October 13, 2011, the Company entered into an underwriting agreement for its initial public offering of its common stock at \$15.00 per share, which closed on October 19, 2011. Immediately prior to the closing of the initial public offering, all outstanding shares of the Company's preferred stock converted to common stock on a one for one basis.

The Company operates on a fiscal year ending June 30. In this Quarterly Report, the fiscal year ended June 30, 2013 is referred to as fiscal 2013 and the fiscal year ending June 30, 2012 is referred to as fiscal 2012.

Basis of Presentation The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) related to interim financial statements based on applicable Securities and Exchange Commission (SEC) rules and regulations. Accordingly, they do not include all the information and footnotes required by U.S. GAAP for complete financial statements. This information reflects all adjustments, which are, in the opinion of the Company, of a normal and recurring nature and necessary to state fairly the statements of financial position, results of operations and cash flows for the dates and periods presented. The June 30, 2012 balance sheet was derived from the audited financial statements as of that date. All significant intercompany transactions and balances have been eliminated.

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 on September 28, 2012 with the SEC (the Annual Report). The results of operations for the three months ended September 30, 2012 are not necessarily indicative of the results to be expected for any future periods.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are disclosed in its audited consolidated financial statements for the year ended June 30, 2012 included in the Annual Report.

Recent Accounting Pronouncements

The Company does not believe there have been any recent accounting pronouncements that would have a significant impact on the Company's financial statements.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS

Pursuant to the accounting guidance for fair value measurements and its subsequent updates, fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The accounting guidance establishes a three-tier fair value hierarchy that requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. The fair value hierarchy prioritizes the inputs into three levels that may be used in measuring fair value as follows:

Level 1 observable inputs which include quoted prices in active markets for identical assets of liabilities.

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Level 2 inputs which include observable inputs other than Level 1, such as quoted prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 inputs which include unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the underlying asset or liability. Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques, as well as significant management judgment or estimation.

The Company's financial assets at September 30, 2012 and June 30, 2012 included money market funds which were valued based on quoted prices in active markets for substantially similar assets and, therefore, were Level 1 instruments. Additionally, at September 30, 2012 the Company had debt associated with its Loan and Security Agreement with East West Bank (See Note 8). The fair value of the Company's debt was estimated based on the current rates offered to the Company for debt with the same remaining maturities.

As of September 30, 2012 and June 30, 2012, the fair value hierarchy for the Company's financial assets and financial liabilities was as follows (in thousands):

Fair Value	September 30, 2012		June 30, 2012
	Level 1	Level 2	