

Super Micro Computer, Inc.  
Form 10-K  
September 15, 2014  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

---

Form 10-K

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

For the fiscal year ended June 30, 2014

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 001-33383

---

Super Micro Computer, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

980 Rock Avenue  
San Jose, CA 95131

(Address of principal executive offices, including zip code)

(408) 503-8000

(Registrant's telephone number, including area code)

---

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock, \$0.001 par value per share

Securities registered pursuant to section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 (§229.405 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this

Form 10-K.

Edgar Filing: Super Micro Computer, Inc. - Form 10-K

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (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 of the Exchange Act) Yes  No

The aggregate market value of the registrant's Common Stock held by non-affiliates, based upon the closing price of the Common Stock on December 31, 2013, as reported by the NASDAQ Global Select Market, was \$576,341,886. Shares of Common Stock held by each executive officer and director and by each person who owns 5% or more of the outstanding Common Stock, based on filings with the Securities and Exchange Commission, have been excluded since such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of August 31, 2014 there were 45,675,186 shares of the registrant's common stock, \$0.001 par value, outstanding, which is the only class of common stock of the registrant issued.

DOCUMENTS INCORPORATED BY REFERENCE

None

WEST\249206192.2

---

Table of Contents

SUPER MICRO COMPUTER, INC.

ANNUAL REPORT ON FORM 10-K  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

TABLE OF CONTENTS

	Page
PART I	
Item 1. <u>Business</u>	<u>3</u>
Item 1A. <u>Risk Factors</u>	<u>9</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>21</u>
Item 2. <u>Properties</u>	<u>21</u>
Item 3. <u>Legal Proceedings</u>	<u>21</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>21</u>
PART II	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>22</u>
Item 6. <u>Selected Financial Data</u>	<u>23</u>
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>38</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>40</u>
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>69</u>
Item 9A. <u>Controls and Procedures</u>	<u>70</u>
Item 9B. <u>Other Information</u>	<u>72</u>
PART III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>72</u>
Item 11. <u>Executive Compensation</u>	<u>78</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>88</u>
Item 13. <u>Certain Relationships and Related Transactions and Director Independence</u>	<u>89</u>
Item 14. <u>Principal Accountant Fees and Services</u>	<u>91</u>
PART IV	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	<u>92</u>
<u>Signatures</u>	<u>93</u>

Unless the context requires otherwise, the words “Super Micro,” “Supermicro,” “we,” “Company,” “us” and “our” in this document refer to Super Micro Computer, Inc. and where appropriate, our wholly owned subsidiaries. Supermicro, the Company logo and our other registered or common law trademarks, service marks, or trade names appearing in this Annual Report on Form 10-K are the property of Super Micro Computer, Inc. or its affiliates. Other trademarks, service marks, or trade names appearing in this Annual Report on Form 10-K are the property of their respective owners.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains “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 below, under “Item 1A Risk Factors”, and in other parts of this Form 10-K as well as in our other filings with the SEC. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this Annual Report on Form 10-

WEST\249206192.2

---

Table of Contents

K may not occur and actual results could differ materially and adversely 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, except as required by law. We cannot guarantee future results, levels of activity, performance or achievements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

PART I

Item 1. Business

Overview

We are a global leader in high-performance, high-efficiency server technology and innovation. We develop and provide end-to-end green computing solutions to the Data Center, Cloud Computing, Enterprise IT, Big Data, High Performance Computing, or HPC, and Embedded markets. Our solutions range from complete server, storage, blade and workstations to full racks, networking devices, server management software and technology support and services. We offer our customers a high degree of flexibility and customization by providing what we believe to be the industry's broadest array of server configurations from which they can chose the optimal solution which fits their computing needs. Our server systems, subsystems and accessories are architecturally designed to provide high levels of reliability, quality and scalability, thereby enabling our customers benefits in the areas of compute performance, density, thermal management and power efficiency to lower their overall total cost of ownership.

We perform the majority of our research and development efforts in-house, which increases the communication and collaboration between design teams, streamlines the development process and reduces time-to-market. We have developed a set of design principles which allow us to aggregate individual industry standard components and materials to develop proprietary products, such as serverboards, chassis, power supplies, networking and storage devices. This building block approach allows us to provide a broad range of SKUs, and enables us to build and deliver application-optimized solutions based upon customers' requirements. As of June 30, 2014, we offered over 5,650 SKUs, including SKUs for server and storage systems, serverboards, chassis, power supplies and other system accessories.

We conduct our operations principally from our headquarters in California and subsidiaries in Taiwan, the Netherlands, China and Japan. We sell our server systems and server subsystems and accessories through distributors, including value added resellers and system integrators, and to a lesser extent to OEMs as well as through our direct sales force. During fiscal year 2014, our products were purchased by over 800 customers in 93 countries. None of our customers represent 10% or more of our net sales. We commenced operations in 1993 and have been profitable every year since inception. For fiscal years 2014, 2013 and 2012, our net sales were \$1,467.2 million, \$1,162.6 million and \$1,013.9 million, respectively, and our net income was \$54.2 million, \$21.3 million and \$29.9 million, respectively.

The Super Micro Solution

We develop and manufacture high performance server solutions based upon an innovative, modular and open architecture. Our primary competitive advantages arise from how we use our integrated internal research and development organization coupled with our deep understanding of complex computing requirements to develop the intellectual property used in our server solutions. These have enabled us to develop a set of design principles and performance specifications that meet industry standard Server System Infrastructure, or SSI, requirements and also incorporate the advanced functionality and capabilities required by our customers. We believe that our approach provides us with greater flexibility to quickly and efficiently develop new server solutions that are optimized for our

customers' specific application requirements. Our modular architectural approach has allowed us to offer our customers what we believe to be the industry's largest array of server systems and subsystems and accessories with performance optimized for their unique applications.

#### Flexible and Customizable Server Solutions

We provide flexible and customizable server solutions to address the specific application needs of our customers. Our design principles allow us to aggregate industry standard components and materials to develop proprietary subsystems and accessories, such as serverboards, chassis and power supplies to deliver a broad range of products with improved features. We believe this building block approach allows us to provide a broad range of optimized solution SKUs.

WEST\249206192.2

---

## Table of Contents

### Rapid Time-to-Market

We are able to reduce the design and development time required to incorporate the latest technologies into the next generation application optimized server solutions. Our in-house design competencies and control of the design of many of the components used within our server systems enable us to rapidly develop, build and test server systems, subsystems and accessories with unique configurations. As a result, when new technologies are brought to market, we are generally able to quickly design, integrate and assemble solutions with little need to re-engineer other portions of our solution. Our efficient design capabilities allow us to offer our customers server solutions incorporating the latest technology with a better price-to-performance ratio. We work closely with the leading microprocessor vendors to coordinate the design of our new products with their product release schedules, thereby enhancing our ability to rapidly introduce new products incorporating the latest technology.

### Improved Power Efficiency and Thermal Management

We leverage advanced technology and system design expertise to reduce the power consumption of our server, blade, workstation and storage systems. We believe that we are an industry leader in power saving technology. Our server solutions include many design innovations to optimize power consumption and manage heat dissipation. We have designed flexible power management systems which customize or eliminate components in an effort to reduce overall power consumption. We have developed proprietary power supplies that can be integrated across a wide range of server system form factors which can significantly enhance power efficiency. We have also developed technologies that are specifically designed to reduce the effects of heat dissipation from our servers. Our thermal management technology allows our products to achieve a better price-to-performance ratio while minimizing energy costs and reducing the risk of server malfunction caused by overheating. We have also developed power management software that controls power consumption of server clusters by policy-based administration.

### High Density Servers

Our servers are designed to enable customers to maximize computing power while minimizing the physical space utilized. We offer server systems with up to four times the density of conventional solutions, which allows our customers to efficiently deploy our server systems in scale-out configurations. Through our industry leading technology, we can offer significantly more memory, hard disk drive storage and expansion slots than traditional server systems with a comparable server form factor. For example, our FatTwin solutions contain eight or four full feature DP hot-pluggable compute nodes in a 4U server. The 8-node configuration provides high density and computing power for those compute-demanding applications, while the 4-node configuration offers up to 8 hot-pluggable 3.5" HDDs per U for those applications that require high storage capacity within a compact setting. This high density design is well suited for our customers that require highly space efficient solutions.

### Strategy

Our objective is to be the leading provider of application optimized, high performance server, storage and networking solutions worldwide. Achieving this objective requires continuous development and innovation of our solutions with better price performance and architectural advantages compared with both our prior generation of solutions and the solutions of our competitors as well as solutions which expand the breath of our coverage of data center needs. We believe that many of these product innovations are gaining momentum based on the strong year-over-year revenue growth across these next-generation products. We believe that our strategy and our ability to innovate and execute may enable us to maintain our relative competitive position in many of our product areas and improve our competitive position in others while providing us with several long-term growth opportunities. Key elements of our strategy include:

### Maintain Our Time-to-Market Advantage

We believe one of our major competitive advantages is our ability to rapidly incorporate the latest computing innovations into our products. We intend to maintain our time-to-market advantage by continuing our investment in our research and development efforts to rapidly develop new proprietary server, storage and networking solutions based on industry standard components. We plan to continue to work closely with technology partners such as Intel, AMD and NVIDIA, among others, to develop products that are compatible with the latest generation of industry standard technologies. We believe these efforts will allow us to continue to offer products that lead in price for performance as each generation of computing innovations becomes available.

WEST\249206192.2

4

---



## Table of Contents

### Expand Our Product Offerings

We plan to increase the number of products in server, storage and networking solutions that we offer to our customers. We plan to continue to improve the energy efficiency of our products by enhancing our ability to deliver improved power and thermal management capabilities, as well as servers and subsystems and accessories that can operate in increasingly dense environments. We have introduced and also plan to continue developing additional management software capabilities that are integrated with our server products and will further enable our customers to simplify and automate the deployment, configuration and monitoring of our servers.

### Further Develop Existing Markets and Expand Into New Markets

We intend to strengthen our relationships with existing customers and add new customers and partners. We will continue to target specific industry segments that require application optimized server solutions including enterprises, data centers, financial services, oil and gas exploration, biotechnology, entertainment and embedded applications. We began manufacturing and service operations in the Netherlands and Taiwan in support of European and Asian customers in 2012 and we plan to continue to increase our overseas manufacturing capacity and logistics capabilities and to expand our reach geographically.

### Strengthen Our Relationships with Suppliers and Manufacturers

Our efficient supply chain and combined internal and outsourced manufacturing allow us to build systems to order that are customized, while minimizing costs. We plan to continue leveraging our relationships with suppliers and contract manufacturers in order to maintain and improve our cost structure as we benefit from economies of scale. We intend to continue to source non-core products from external suppliers. We also believe that as our solutions continue to gain greater market acceptance, we will generate growing and recurring business for our suppliers and contract manufacturers. We believe this increased volume will enable us to receive better pricing. We believe that a highly disciplined approach to cost control is critical to success in our industry. For example, we continue to maintain our warehousing capacity in Asia through our relationship with Ablecom Technology, Inc., or Ablecom, one of our major contract manufacturers and a related party, so that we continue to deliver products to our customers in Asia and elsewhere more quickly and in higher volumes.

### Products

We offer a broad range of application optimized server solutions, including rackmount and blade server systems and subsystems and accessories which customers can use to build complete server systems.

#### Server Systems

We sell server systems in rackmount, standalone tower, blade, Twin and multi-node form factors. As of June 30, 2014, we offered over 1,000 different server systems. As summary of some of our server systems are listed below:

Our Twin architecture series of server systems including 1U Twin, 2U Twin, 2U Twin<sup>2</sup>, 2U Twin<sup>3</sup>, TwinPro, TwinBlade and FatTwin are optimized for density, performance and efficiency for customers' storage, HPC and cloud computing requirements.

Our GPU/Xeon Phi optimized server systems in 1U, 2U, 4U and blade platforms achieve higher parallel processing capability with Intel's Many Integrated Core, or MIC, architecture based on Xeon Phi and are designed to provide high

performance in calculation intensive applications.

Our MicroCloud server systems are high-density, multi-node UP servers with up to 24 hot-pluggable nodes and 16 hot-swappable HDDs in a compact 3U form factor. MicroCloud integrates advanced technologies within a compact functional design to deliver high performance in environments with space and power limitations. These combined features provide a cost-effective solution for IT professionals implementing new hosting architectures for SMB and Public/Private Cloud Computing applications

Our SuperBlades are designed to share a common computing infrastructure, thereby saving additional space and power. We believe that our SuperBlade server system provides industry leading density, memory expandability, reliability,

WEST\249206192.2

5

---

## Table of Contents

price-to-performance per square foot and energy saving server solutions for dedicated hosting, web front end, cloud computing services, content delivery and social networking.

Our SuperStorage solutions in 2U, 3U and 4U platforms provide high density storage solutions while leveraging high-efficiency power to maximize performance-per watt savings to reduce total cost of ownership, or TCO for enterprise Data Centers, Big Data and other high performance applications. For example, our innovative double-sided storage provides high density with the ability of hot-plug HDD mounted on the front and back sides. Our Super Storage Bridge Bay is optimized for mission-critical, enterprise-level storage applications which can incorporate SATA, SAS, and FC storage solutions for flexibility and provides hot-swappable canisters for all active components in the server for ease of servicing.

Our internally developed switch products 10G/40G Ethernet and InfiniBand switches for rack-mount servers. These switch products not only help us to up-sell our server products, but also generate additional revenues.

Our SuperRack server solutions offer a wide range of flexible accessory options including front, rear and side expansion units to provide modular solutions for system configuration. Data Center, HPC Computing and server farm customers can use us as a one-stop shop for all of their IT hardware needs. Our SuperRack offers easy installation and rear access with no obstructions for hot-swap devices, user-friendly cabling and cable identification, and effortless integration of our high-density server, storage and blade systems.

Our remote system management solutions, such as our Server Management suite, or SSM, including Supermicro Power Management software, or SPM, Supermicro Command Manager, or SCM, Supermicro Update Manager, or SUM, and SuperDoctor 5, or SD5, have been designed for server farm or datacenters' system administration and management. These remote management software utilities provide the ability to manage large-scale servers and storage in an organization's IT infrastructure. SPM is designed specifically for HPC/Data Center cluster deployment and management. The Command Line Interface, or CLI, which utilizes the Linux operating system, provides a convenient working environment for our system integrators or the cluster administrators to deploy, configure, control, and manage the HPC cluster.

### Server Subsystems and Accessories

We believe we offer the largest array of modular server subsystems and accessories or building blocks in the industry that are sold off-the-shelf or built-to-order. These components are the foundation of our server solutions and span product offerings from the entry-level single and dual processor server segment to the high-end multi-processor market. The majority of the subsystems and accessories we sell individually are optimized to work together and are ultimately integrated into complete server systems.

### Serverboards

We design our serverboards with the latest chipset, networking technologies and infrastructure software. Each serverboard is designed and optimized to adhere to specific physical, electrical and design requirements in order to work with certain combinations of chassis and power supplies and achieve maximum functionality. For our rackmount server systems, we not only adhere to SSI specifications, but our customized specifications provide an advanced set of features that increase the functionality and flexibility of our products. As of June 30, 2014, we offered more than 500 SKUs for serverboards.

### Chassis and Power Supplies

Our chassis are designed to efficiently house our servers while maintaining interoperability, adhering to industry standards and increasing output efficiency through power supply design. We believe that our latest generation of power supplies achieves the maximum power efficiency available in the industry. Our power design technology reduces power consumption by increasing power efficiency up to 96%, which we believe is among the most efficient available in the industry. Our server chassis come with hot-plug, heavy-duty fans, fan speed control and an advanced air shroud design to maximize airflow redundancy. We have developed Battery Backup Power, or BBP, modules which provide the same dimension, output pin assignment and work with some existing AC hot swap redundant module models seamlessly. BBP can further increase datacenter power efficiency 5% to 15% by replacing existing datacenter UPS systems with BBP modules. As of June 30, 2014, we offered more than 650 SKUs for chassis and power supplies.

#### Other System Accessories

As part of our server component offerings, we also offer other system accessories that our customers may require or that we use to build our server solutions. These other products include, among others, microprocessors, memory and disk drives

WEST\249206192.2

6

---

## Table of Contents

that generally are third party developed and manufactured products that we resell without modification. As of June 30, 2014, we offered more than 3,500 SKUs for other system accessories.

### Research and Development

Our products incorporate over 21 years of research and development experience. We perform the majority of our research and development efforts in-house, increasing the communication and collaboration between design teams to streamline the development process and reducing time-to-market. We continue to invest in reducing our design and manufacturing costs and improving the performance, cost effectiveness and thermal and space efficiency of our solutions.

Over the years, our research and development team has focused on the development of new and enhanced products that can support emerging protocols while continuing to accommodate legacy technologies. Much of our research and development activity is focused on the new product cycles of leading chipset vendors. We work closely with Intel, AMD and NVIDIA among others, to develop products that are compatible with the latest generation of industry standard technologies under development. Our collaborative approach with the chipset vendors allows us to coordinate the design of our new products with their product release schedules, thereby enhancing our ability to rapidly introduce new products incorporating the latest technology. We work closely with their development teams to optimize chip performance and reduce system level issues. Similarly, we work very closely with our customers to identify their needs and develop our new product plans accordingly.

We believe that the combination of our focus on internal research and development activities, our close working relationships with customers and vendors and our modular design approach allow us to minimize time-to-market. Our latest introductions include our TwinPro design, supporting the industry's first SAS3.0 storage, NVMe accelerated PCI-e SSD performance and Titanium level efficiency power supply which provides an optimized solution for Data Centers, and MicroBlade design, a powerful and flexible extreme-density 6U all-in-one total system, that features 28 hot-swappable MicroBlade Modules supporting 112 ultra-low power Atom or 28 DP Xeon processors with up to 4HDDs/SSDs and 4 SATA DOMs per Module. This innovative new generation architecture includes microserver, networking, storage, and unified remote management for cloud computing, dedicated hosting, web front end, content delivery and social networking applications.

As of June 30, 2014, we had 778 employees and 5 engineering consultants dedicated to research and development. Our total research and development expenses were \$84.3 million, \$75.2 million, and \$64.2 million for fiscal years 2014, 2013 and 2012, respectively.

### Customers

For fiscal year 2014, our products were purchased by over 800 customers, most of which are distributors, in 93 countries. None of our customers accounted for 10% or more of our net sales in fiscal years 2014, 2013 and 2012.

### Sales, Marketing and Customer Service

Our sales and marketing program is primarily focused on indirect sales channels. As of June 30, 2014, our sales and marketing organization consisted of 216 employees and 27 independent sales representatives in 18 locations worldwide.

We work with distributors, including resellers and system integrators, and OEMs to market and sell customized solutions to their end customers. We provide sales and marketing assistance and training to our distributors and OEMs, who in turn provide service and support to end customers. We intend to leverage our relationships with key

distributors and OEMs to penetrate select industry segments where our products can provide a superior alternative to existing solutions. For a more limited group of customers who do not normally purchase through distributors or OEMs, we have implemented a direct sales approach.

We maintain close contact with our distributors and end customers. We often collaborate during the sales process with our distributors and the customer's technical point of contact to help determine the optimal system configuration for the customer's needs. Our interaction with distributors and end customers allows us to monitor customer requirements and develop new products to better meet end customer needs.

#### International Sales

Product fulfillment and first level support for our international customers are provided by our distributors and OEMs. Our international sales efforts are supported both by our international offices in the Netherlands, Taiwan, China and Japan as

WEST\249206192.2

7

## Table of Contents

well as by our U.S. sales organization. Sales to customers located outside of the U.S. represented 44.8%, 45.8% and 41.8% of net sales in fiscal years 2014, 2013 and 2012, respectively.

### Marketing

Our marketing programs are designed to inform existing and potential customers, the trade press, distributors and OEMs about the capabilities and benefits of using our products and solutions. Our marketing efforts support the sale and distribution of our products through our distribution channels. We rely on a variety of marketing vehicles, including advertising, public relations, participation in industry trade shows and conferences to help gain market acceptance. We also provide funds for cooperative marketing to our distributors. We also work closely with in cooperative marketing programs and benefit from market development funds that they make available.

### Customer Service

We provide customer support for our blade and rackmount server systems through our website and 24-hour continuous direct phone based support. For strategic direct and OEM customers, we also have higher levels of customer service available, including, in some cases, on-site service and support.

### Intellectual Property

We seek to protect our intellectual property rights with a combination of patents, trademark, copyright, trade secret laws and disclosure restrictions. We rely primarily on trade secrets, technical know-how and other unpatented proprietary information relating to our design and product development activities. We also enter into confidentiality and proprietary rights agreements with our employees, consultants and other third parties and control access to our designs, documentation and other proprietary information.

### Manufacturing and Quality Control

We use several third party suppliers and contract manufacturers for materials and sub-assemblies, such as serverboards, chassis, disk drives, power supplies, fans and computer processors. We believe that selectively using outsourced manufacturing services allows us to focus on our core competencies in product design and development and increases our operational flexibility. We believe our manufacturing strategy allows us to adjust manufacturing capacity in response to changes in customer demand and to rapidly introduce new products to the market. We use Ablecom, a related party, for contract design and manufacturing coordination support. We work with Ablecom to optimize modular designs for our chassis and certain of our other components. Ablecom coordinates the manufacturing of chassis for us. 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 U.S., Europe and Asia.

Assembly, test and quality control of our servers are performed at our wholly-owned manufacturing facility in San Jose, California which Quality / Environmental Management System or, Q/EMS, has been certified according to ISO 9001 and ISO 14001 standards since 2001 and 2010, respectively. In fiscal year 2010, we began server integration operations in our Netherlands and Taiwan facilities to be closer to our key international customers and to reduce costs of shipping our products to our customers. The Q/EMS of these facilities have also been certified according to ISO 9001:2008 and ISO 14001:2004 standards. Consequently, our suppliers and contract manufacturers have been informed to support the same standards in order to maintain consistent product and service quality and continuous improvement of quality and environmental performances.

We seek to maintain sufficient inventory such that most of our orders can be filled within 14 days. We monitor our inventory on a continuous basis in order to be able to meet customer orders and to avoid inventory obsolescence. Due to our modular designs, our inventory can generally be used with multiple different products, further reducing the risk of inventory write-downs.

### Competition

The market for our products is highly competitive, rapidly evolving and subject to new technological developments, changing customer needs and new product introductions. In particular, in recent years the market has been subject to substantial change. We compete primarily with large vendors of X86 general purpose servers and components. In addition, we also compete with a number of smaller vendors who specialize in the sale of server components and systems. We believe our principal competitors include:

WEST\249206192.2

8

---



## Table of Contents

Global technology vendors such as Dell Inc., Hewlett-Packard Company, International Business Machines Corporation, Cisco and Intel;  
Original Design Manufacturers, or ODMs, such as Quanta Computer, Inc.

The principal competitive factors in our market include the following:

- first to market with new emerging technologies;
- flexible and customizable products to fit customers' objectives;
- high product performance and reliability;
- early identification of emerging opportunities;
- cost-effectiveness;
- interoperability of products;
- scalability; and
- localized and responsive customer support on a worldwide basis.

We believe that we compete favorably with respect to most of these factors. However, most of our competitors have longer operating histories, significantly greater resources and greater name recognition. They may be able to devote greater resources to the development, promotion and sale of their products than we can, which could allow them to respond more quickly to new technologies and changes in customer needs.

## Employees

As of June 30, 2014, we employed 1,837 full time employees and 32 consultants, consisting of 778 employees in research and development, 216 employees in sales and marketing, 145 employees in general and administrative and 698 employees in manufacturing. Of these employees, 1,257 employees are based in our San Jose facility. We consider our highly qualified and motivated employees to be a key factor in our business success. Our employees are not represented by any collective bargaining organization and we have never experienced a work stoppage. We believe that our relations with our employees are good.

## Corporate Information

We were incorporated in California in September 1993. We reincorporated in Delaware in March 2007. Our common stock is listed on The NASDAQ Global Select Market under the symbol "SMCI." Our principal executive offices are located at 980 Rock Avenue, San Jose, CA 95131 and our telephone number is (408) 503-8000. Our website address is [www.supermicro.com](http://www.supermicro.com).

## Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, are available free of charge, on or through our website at [www.supermicro.com](http://www.supermicro.com), as soon as reasonably practicable after we electronically file such reports with, or furnish those reports to, the Securities and Exchange Commission or the SEC. Information contained on our website is not incorporated by reference in, or made part of this Annual Report on Form 10-K or our other filings with or reports furnished to the SEC. The SEC also maintains a website that contains our SEC filings. The address of the site is [www.sec.gov](http://www.sec.gov). Further, a copy of this Annual Report on Form 10-K is located at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

Item 1A. Risk Factors

Risks Related to Our Business and Industry

Our quarterly operating results will likely fluctuate in the future, which could cause rapid declines in our stock price. As our business continues to grow, we believe that our quarterly operating results will be subject to greater fluctuation due to various factors, many of which are beyond our control. Factors that may affect quarterly operating results in the future include:

- fluctuations based upon seasonality, with the quarters ending March 31 and September 30 typically being weaker;
- unpredictability of the timing and size of customer orders, since most of our customers purchase our products on a purchase order basis rather than pursuant to a long term contract;
- fluctuations in availability and costs associated with key components and other materials needed to satisfy customer requirements;
- variability of our margins based on the mix of server systems, subsystems and accessories we sell and the percentage of our sales to internet datacenter cloud customers or geographical regions;

WEST\249206192.2

9

---

Table of Contents

- the timing of the introduction of new products by leading microprocessor vendors and other suppliers;
- our ability to introduce new and innovative server solutions that appeal to our customers;
- our ability to address technology issues as they arise, improve our products' functionality and expand our product offerings;
- changes in our product pricing policies, including those made in response to new product announcements and pricing changes of our competitors;
- mix of whether customer purchases are of full systems or subsystems and accessories and whether made directly or through indirect sales channels;
- the effect of mergers and acquisitions among our competitors, suppliers or partners;
- general economic conditions in our geographic markets; and
- impact of regulatory changes on our cost of doing business.

Accordingly, it is difficult to accurately forecast our growth and results of operations on a quarterly basis. If we fail to meet expectations of investors or analysts, our stock price may fall rapidly and without notice. Furthermore, the fluctuation of quarterly operating results may render less meaningful period-to-period comparisons of our operating results, and you should not rely upon them as an indication of future performance.

We may fail to meet publicly announced financial guidance or other expectations about our business, which would cause our stock to decline in value.

We typically provide forward looking financial guidance when we announce our financial results from the prior quarter. We undertake no obligation to update such guidance at any time. Frequently in the past, our financial results have failed to meet the guidance we provided. There are a number of reasons why we might fail, including, but not limited to, the factors described in the preceding Risk Factor.

Our cost structure and ability to deliver server solutions to customers in a timely manner may be adversely affected by volatility of the market for core components and materials for our products.

Prices of materials and core components utilized in the manufacture of our server solutions, such as serverboards, chassis, central processing units, or CPUs, memory and hard drives represent a significant portion of our cost of sales. We generally do not enter into long-term supply contracts for these materials and core components, but instead purchase these materials and components on a purchase order basis. Prices of these core components and materials are volatile, and, as a result, it is difficult to predict expense levels and operating results. In addition, if our business growth renders it necessary or appropriate to transition to longer term contracts with materials and core component suppliers, our costs may increase and our gross margins could correspondingly decrease.

Because we often acquire materials and core components on an as needed basis, we may be limited in our ability to effectively and efficiently respond to customer orders because of the then-current availability or the terms and pricing of materials and core components. Our industry has experienced materials shortages and delivery delays in the past, and we may experience shortages or delays of critical materials in the future. From time to time, we have been forced to delay the introduction of certain of our products or the fulfillment of customer orders as a result of shortages of materials and core components. For example, we were unable to fulfill certain orders at the end of the quarter ended June 30, 2010 due to component shortages, and our net sales were adversely impacted in fiscal year 2013 and 2012 by disk drive shortages resulting from the flooding in Thailand. If shortages or delays arise, the prices of these materials and core components may increase or the materials and core components may not be available at all. In addition, in the event of shortages, some of our larger competitors may have greater abilities to obtain materials and core components due to their larger purchasing power. We may not be able to secure enough core components or materials at reasonable prices or of acceptable quality to build new products to meet customer demand, which could adversely affect our business and financial results.

If we were to lose any of our current supply or contract manufacturing relationships, the process of identifying and qualifying a new supplier or contract manufacturer who will meet our quality and delivery requirements, and who will appropriately safeguard our intellectual property, may require a significant investment of time and resources, adversely

WEST\249206192.2

10

---

Table of Contents

affecting our ability to satisfy customer purchase orders and delaying our ability to rapidly introduce new products to market. Similarly, if any of our suppliers were to cancel, materially change contracts or commitments to us or fail to meet the quality or delivery requirements needed to satisfy customer demand for our products, whether due to shortages or other reasons, our reputation and relationships with customers could be damaged. We could lose orders, be unable to develop or sell some products cost-effectively or on a timely basis, if at all, and have significantly decreased revenues, margins and earnings, which would have a material adverse effect on our business.

We may incur additional expenses and suffer lower margins if our expectations regarding long term hard disk drive commitments prove incorrect.

Notwithstanding our general practice of not entering into long term supply contracts, as a result of severe flooding in Thailand during the first quarter of fiscal year 2012, we have entered into purchase agreements with selected suppliers of hard disk drives in order to ensure continuity of supply for these components. The hard disk drive purchase commitments totaled approximately \$45.2 million as of June 30, 2014 and will be paid through December 2014. Higher costs compared to the lower selling prices for these components incurred under these agreements contributed to our lower gross profit in fiscal year 2013 and will likely impact our gross profit in the future. This and any other similar future supply commitments that we may enter into expose us to risk for lower margins or loss on disposal of such inventory if our expectations of customer demand are incorrect and the market price of the material or component inventory decline.

We may lose sales or incur unexpected expenses relating to insufficient, excess or obsolete inventory.

As a result of our strategy to provide greater choice and customization of our products to our customers, we are required to maintain a high level of inventory. If we fail to maintain sufficient inventory, we may not be able to meet demand for our products on a timely basis, and our sales may suffer. If we overestimate customer demand for our products, we could experience excess inventory of our products and be unable to sell those products at a reasonable price, or at all. As a result, we may need to record higher inventory reserves. In addition, from time to time we assume greater inventory risk in connection with the purchase or manufacture of more specialized components in connection with higher volume sales opportunities. We have from time to time experienced inventory write downs associated with higher volume sales that were not completed as anticipated. For example, we recorded a reserve in the quarters ended March 31, 2013 and June 30, 2013 relating to specialized inventory purchased for one customer. We expect that we will experience such write downs from time to time in the future related to existing and future commitments. If we are later able to sell inventory with respect to which we have taken a reserve at a profit, it may increase the quarterly variances in our operating results. Additionally, the rapid pace of innovation in our industry could render significant portions of our existing inventory obsolete. Certain of our distributors and OEMs have rights to return products, 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 termination of the agreement or product obsolescence. Any returns under these arrangements could result in additional obsolete inventory. In addition, server systems, subsystems and accessories that have been customized and later returned by those of our customers and partners who have return rights or stock rotation rights may be unusable for other purposes or may require reformation at additional cost to be made ready for sale to other customers. Excess or obsolete inventory levels for these or other reasons could result in unexpected expenses or increases in our reserves against potential future charges which would adversely affect our business and financial results. For example, during fiscal years 2014, 2013 and 2012, we recorded inventory write-downs charged to cost of sales of \$2.3 million, \$9.7 million and \$8.6 million, for lower of cost or market and excess and obsolete inventory. For additional information regarding customer return rights, see "Management's Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies-Inventory Valuation."

As we increasingly target larger customers and larger sales opportunities, our customer base may become more concentrated, our cost of sales may increase, our margins may be lower and our sales may be less predictable.

As our business continues to grow, we have become increasingly dependent upon larger sales to maintain our rate of growth. In particular, in recent years, we have completed larger sales to datacenters, leading internet companies and for other cloud computing applications. As customers buy our products in greater volumes and their business becomes a larger percentage of our net sales, we may grow increasingly dependent on those customers to maintain our growth. If our largest customers do not purchase our products at the levels, timeframes or geographies that we expect, our ability to maintain or grow our net sales will be adversely affected.

Additionally, as we and our partners focus increasingly on selling to larger customers and attracting larger orders, we expect greater costs of sales. Our sales cycle may become longer and more expensive, as larger customers typically spend more time negotiating contracts than smaller customers. Larger customers often seek to gain greater pricing concessions, as well as

WEST\249206192.2

11

---

Table of Contents

greater levels of support in the implementation and use of our server solutions. These factors can result in lower margins for our products.

Increased sales to larger companies may also cause fluctuations in results of operations. A larger customer may seek to fulfill all or substantially all of its requirements in a single order, and not make another purchase for a significant period of time. Accordingly, a significant increase in revenue during the period in which we recognize the revenue from the sale may be followed by a period of time during which the customer purchases none or few of our products. A significant decline in net sales in periods following a significant order could adversely affect our revenues and net income. Likewise, large orders are generally subject to intense pricing pressure which can have an adverse impact on our margins and results of operations. As a result, our quarter-to-quarter results of operations may be subject to greater fluctuation and our stock price may be adversely affected.

If we do not successfully manage the expansion of our international manufacturing operations, our business could be harmed.

Since inception we have conducted substantially all of our manufacturing operations near our corporate headquarters in California. We have recently begun significant manufacturing operations in Taiwan and more limited manufacturing operations in the Netherlands. The commencement of new manufacturing operations in new locations, particularly in other jurisdictions, entails additional risks and challenges. If we are unable to successfully ramp up these operations we may incur unanticipated costs, difficulties in making timely delivery of products or suffer other business disruptions which could adversely impact our results of operations.

We may not be able to successfully manage our planned growth and expansion.

Over time we expect to continue to make investments to pursue new customers and expand our product offerings to grow our business rapidly. We expect that our annual operating expenses will continue to increase as we invest in sales and marketing, research and development, manufacturing and production infrastructure, and strengthen customer service and support resources for our customers. Our failure to expand operational and financial systems timely or efficiently could result in additional operating inefficiencies, which could increase our costs and expenses more than we had planned and prevent us from successfully executing our business plan. We may not be able to offset the costs of operation expansion by leveraging the economies of scale from our growth in negotiations with our suppliers and contract manufacturers. Additionally, if we increase our operating expenses in anticipation of the growth of our business and this growth does not meet our expectations, our financial results will be negatively impacted.

If our business grows, we will have to manage additional product design projects, materials procurement processes, and sales efforts and marketing for an increasing number of SKUs, as well as expand the number and scope of our relationships with suppliers, distributors and end customers. If we fail to manage these additional responsibilities and relationships successfully, we may incur significant costs, which may negatively impact our operating results. Additionally, in our efforts to be first to market with new products with innovative functionality and features, we may devote significant research and development resources to products and product features for which a market does not develop quickly, or at all. If we are not able to predict market trends accurately, we may not benefit from such research and development activities, and our results of operations may suffer.

We may encounter difficulties with our ERP Systems.

We are currently in the process of implementing a new enterprise resource planning, or ERP, System. We have incurred and expect to continue to incur additional expenses for our implementation. Many companies have experienced delays and difficulties with the implementation of new or changed ERP systems that have had a negative effect on their business. Any disruptions, delays or deficiencies in the design and implementation of a revised or new

ERP system could result in potentially much higher costs than we had anticipated and could adversely affect our ability to develop new products, provide services, fulfill contractual obligations, file reports with the SEC in a timely manner and/or otherwise operate our business, or otherwise impact our controls environment. Any of these consequences could have an adverse effect on our results of operations and financial condition.

The market in which we participate is highly competitive, and if we do not compete effectively, we may not be able to increase our market penetration, grow our net sales or improve our gross margins.

The market for server solutions is intensely competitive and rapidly changing. Barriers to entry in our market are relatively low and we expect increased challenges from existing as well as new competitors. Some of our principal competitors

WEST\249206192.2

12



## Table of Contents

offer server solutions at a lower price, which has resulted in pricing pressures on sales of our server solutions. We expect further downward pricing pressure from our competitors and expect that we will have to price some of our server solutions aggressively to increase our market share with respect to those products or geographies, particularly for internet datacenter customers and other large sale opportunities. If we are unable to maintain the margins on our server solutions, our operating results could be negatively impacted. In addition, if we do not develop new innovative server solutions, or enhance the reliability, performance, efficiency and other features of our existing server solutions, our customers may turn to our competitors for alternatives. In addition, pricing pressures and increased competition generally may also result in reduced sales, less efficient utilization of our manufacturing operations, lower margins or the failure of our products to achieve or maintain widespread market acceptance, any of which could have a material adverse effect on our business, results of operations and financial condition.

Our principal competitors include global technology companies such as Dell, Inc., Hewlett-Packard Company, IBM, Cisco and Intel. In addition, we also compete with a number of other vendors who also sell application optimized servers, contract manufacturers and original design manufacturers, or ODMs, such as Quanta Computer Incorporated. ODMs sell server solutions marketed or sold under a third party brand.

Many of our competitors enjoy substantial competitive advantages, such as:

- greater name recognition and deeper market penetration;
- longer operating histories;
- larger sales and marketing organizations and research and development teams and budgets;
- more established relationships with customers, contract manufacturers and suppliers and better channels to reach larger customer bases and larger sales volume allowing for better costs;
- larger customer service and support organizations with greater geographic scope;
- a broader and more diversified array of products and services; and
- substantially greater financial, technical and other resources.

As a result, our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements. Competitors may seek to copy our innovations and use cost advantages from greater size to compete aggressively with us on price. Certain customers are also current or prospective competitors and as a result, assistance that we provide to them as customers may ultimately result in increased competitive pressure against us. Furthermore, because of these advantages, even if our application optimized server solutions are more effective than the products that our competitors offer, potential customers might accept competitive products in lieu of purchasing our products. The challenges we face from larger competitors will become even greater if consolidation or collaboration between or among our competitors occurs in our industry. In addition, in recent periods each of Hewlett-Packard, Dell and IBM have experienced or initiated substantial changes. Also initiatives like the Open Compute Project, or OCP, a project to establish more industry standard datacenter configurations, could have the impact of supporting an approach which is less favorable to the flexibility and customization that we offer. These changes could have a significant impact on the market and impact our results of operations. For all of these reasons, we may not be able to compete successfully against our current or future competitors, and if we do not compete effectively, our ability to increase our net sales may be impaired.

Any failure to adequately expand or retain our sales force will impede our growth.

We expect that our direct sales force will continue to grow as larger customers increasingly require a direct sales approach. Competition for direct sales personnel with the advanced sales skills and technical knowledge we need is intense. Our ability to grow our revenue in the future will depend, in large part, on our success in recruiting, training, retaining and successfully managing sufficient qualified direct sales personnel. We have traditionally experienced much greater turnover in our sales and marketing personnel as compared to other departments and other companies.

New hires require significant training and may take six months or longer before they reach full productivity. Our recent hires and planned hires may not become as productive as we would like, and we may be unable to hire sufficient numbers of qualified individuals in the future in the markets where we do business. If we are unable to hire, develop and retain sufficient numbers of productive sales personnel, sales of our server solutions will suffer.

We must work closely with our suppliers to make timely new product introductions.

We rely on our close working relationships with our suppliers, including Intel, AMD and Nvidia, to anticipate and deliver new products on a timely basis when new generation materials and core components are made available. Intel, AMD and Nvidia are the only suppliers of the microprocessors we use in our server systems. If we are not able to maintain our relationships with our suppliers or continue to leverage their research and development capabilities to develop new

WEST\249206192.2

13

---

Table of Contents

technologies desired by our customers, our ability to quickly offer advanced technology and product innovations to our customers would be impaired. We have no long term agreements that obligate our suppliers to continue to work with us or to supply us with products.

Our suppliers' failure to improve the functionality and performance of materials and core components for our products may impair or delay our ability to deliver innovative products to our customers.

We need our material and core component suppliers, such as Intel, AMD and Nvidia, to provide us with core components that are innovative, reliable and attractive to our customers. Due to the pace of innovation in our industry, many of our customers may delay or reduce purchase decisions until they believe that they are receiving best of breed products that will not be rendered obsolete by an impending technological development. Accordingly, demand for new server systems that incorporate new products and features is significantly impacted by our suppliers' new product introduction schedules and the functionality, performance and reliability of those new products. If our materials and core component suppliers fail to deliver new and improved materials and core components for our products, we may not be able to satisfy customer demand for our products in a timely manner, or at all. If our suppliers' components do not function properly, we may incur additional costs and our relationships with our customers may be adversely affected.

As our business grows, we expect that we may be exposed to greater customer credit risks.

Historically, we have offered limited credit terms to our customers. As our customer base expands, as our orders increase in size, and as we obtain more direct customers, we expect to offer increased credit terms and flexible payment programs to our customers. Doing so may subject us to increased credit risk, higher accounts receivable with longer days outstanding, and increases in charges or reserves, which could have a material adverse effect on our business, results of operations and financial condition.

We principally rely on indirect sales channels for the sale and distribution of our products and any disruption in these channels could adversely affect our sales.

Historically, a majority of our revenues have resulted from sales of our products through third party distributors and resellers, which sales accounted for 54.1%, 56.3% and 54.4% of our net sales in fiscal years 2014, 2013 and 2012, respectively. We depend on our distributors to assist us in promoting market acceptance of our products and anticipate that a majority of our revenues will continue to result from sales through indirect channels. To maintain and potentially increase our revenue and profitability, we will have to successfully preserve and expand our existing distribution relationships as well as develop new distribution relationships. Our distributors also sell products offered by our competitors and may elect to focus their efforts on these sales. If our competitors offer our distributors more favorable terms or have more products available to meet the needs of their customers, or utilize the leverage of broader product lines sold through the distributors, those distributors may de-emphasize or decline to carry our products. In addition, our distributors' order decision-making process is complex and involves several factors, including end customer demand, warehouse allocation and marketing resources, which can make it difficult to accurately predict total sales for the quarter until late in the quarter. We also do not control the pricing or discounts offered by distributors to end customers. To maintain our participation in distributors' marketing programs, in the past we have provided cooperative marketing arrangements or made short-term pricing concessions.

The discontinuation of cooperative marketing arrangements or pricing concessions could have a negative effect on our business. Our distributors could also modify their business practices, such as payment terms, inventory levels or order patterns. If we are unable to maintain successful relationships with distributors or expand our distribution channels or we experience unexpected changes in payment terms, inventory levels or other practices by our distributors, our business will suffer.

Our direct sales efforts may create confusion for our end customers and harm our relationships with our distributors and OEMs.

We expect our direct sales force to continue to grow as our business grows. As our direct sales force becomes larger, our direct sales efforts may lead to conflicts with our distributors and OEMs, who may view our direct sales efforts as undermining their efforts to sell our products. If a distributor or OEM deems our direct sales efforts to be inappropriate, the distributor or OEM may not effectively market our products, may emphasize alternative products from competitors, or may seek to terminate our business relationship. Disruptions in our distribution channels could cause our revenues to decrease or fail to grow as expected. Our failure to implement an effective direct sales strategy that maintains and expands our relationships with our distributors and OEMs could lead to a decline in sales and adversely affect our results of operations.

WEST\249206192.2

14

---

Table of Contents

The average selling prices for our existing server solutions are subject to decline if customers do not continue to purchase our latest generation products, which could harm our results of operations.

As with most electronics based products, average selling prices of servers 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 become commoditized and are ultimately replaced by even newer generation products. As our business continues to grow, we may increasingly be subject to this industry risk. We cannot predict the timing or amount of any decline in the average selling prices of our server solutions that we may experience in the future. In some instances, our agreements with our distributors limit our ability to reduce prices unless we make such price reductions available to them, or price protect their inventory. If we are unable to decrease per unit manufacturing costs faster than the rate at which average selling prices continue to decline, our business, financial condition and results of operations will be harmed.

Our research and development expenditures, as a percentage of our net sales, are considerably higher than many of our competitors and our earnings will depend upon maintaining revenues and margins that offset these expenditures.

Our strategy is to focus on being consistently rapid-to-market with flexible and customizable server systems that take advantage of our own internal development and the latest technologies offered by microprocessor manufacturers and other component vendors. Consistent with this strategy, we spend higher amounts, as a percentage of revenues, on research and development costs than many of our competitors. If we cannot sell our products in sufficient volume and with adequate gross margins to compensate for such investment in research and development, our earnings may be materially and adversely affected.

Our failure to deliver high quality server solutions could damage our reputation and diminish demand for our products.

Our server solutions are critical to our customers' business operations. Our customers require our server solutions to perform at a high level, contain valuable features and be extremely reliable. The design of our server solutions is sophisticated and complex, and the process for manufacturing, assembling and testing our server solutions is challenging. Occasionally, our design or manufacturing processes may fail to deliver products of the quality that our customers require. For example, in the past a vendor provided us with a defective capacitor that failed under certain heavy use applications. As a result, our product needed to be repaired. Though the vendor agreed to pay for a large percentage of the costs of the repairs, we incurred costs in connection with the recall and diverted resources from other projects.

New flaws or limitations in our server solutions may be detected in the future. Part of our strategy is to bring new products to market quickly, and first-generation products may have a higher likelihood of containing undetected flaws. If our customers discover defects or other performance problems with our products, our customers' businesses, and our reputation, may be damaged. Customers may elect to delay or withhold payment for defective or underperforming server solutions, request remedial action, terminate contracts for untimely delivery, or elect not to order additional server solutions, which could result in an increase in our provision for doubtful accounts, an increase in collection cycles for accounts receivable or subject us to the expense and risk of litigation. We may incur expense in recalling, refurbishing or repairing defective server solutions. If we do not properly address customer concerns about our products, our reputation and relationships with our customers may be harmed. For all of these reasons, customer dissatisfaction with the quality of our products could substantially impair our ability to grow our business.

Conflicts of interest may arise between us and Ablecom Technology Inc., one of our major contract manufacturers, and those conflicts may adversely affect our operations.

We use Ablecom, a related party, for contract design and manufacturing coordination support. We work with Ablecom to optimize modular designs for our chassis and certain of other components. Our purchases from Ablecom represented 16.3%, 17.9% and 19.9% of our cost of sales for fiscal years 2014, 2013 and 2012, respectively. Ablecom's sales to us constitute a substantial majority of Ablecom's net sales. Ablecom is a privately-held Taiwan-based company.

Steve Liang, Ablecom's Chief Executive Officer and largest shareholder, is the brother of Charles Liang, our President, Chief Executive Officer and Chairman of the Board. Charles Liang, and his spouse, Chiu-Chu (Sara) Liu Liang, our Vice President of Operations, Treasurer and director, jointly own 10.5% of Ablecom's outstanding common stock, while Mr. Steve Liang and other family members own 35.9% of Ablecom's outstanding common stock. Mr. and Mrs. Charles Liang, as directors, officers and significant stockholders of the Company, have considerable influence over the management of our business relationships. Accordingly, we may be disadvantaged by their economic interests as stockholders of Ablecom and their personal relationship with Ablecom's Chief Executive Officer. We may not negotiate or enforce contractual terms as aggressively with Ablecom as we might with an unrelated party, and the commercial terms of our agreements may be less

WEST\249206192.2

15

---

Table of Contents

favorable than we might obtain in negotiations with third parties. If our business dealings with Ablecom are not as favorable to us as arms-length transactions, our results of operations may be harmed.

If Steve Liang ceases to have significant influence over Ablecom, or if those of our stockholders who hold shares of Ablecom cease to have a significant amount of the outstanding shares of Ablecom, the terms and conditions of our agreements with Ablecom may not be as favorable as those in our existing contracts. As a result, our costs could increase and adversely affect our margins and results of operations.

Our relationship with Ablecom may allow us to benefit from favorable pricing which may result in reported results more favorable than we might report in the absence of our relationship.

Although we generally re-negotiate the price of products that we purchase from Ablecom on a quarterly basis, pursuant to our agreements with Ablecom either party may re-negotiate the price of products for 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 lower than we could obtain from an unrelated third party supplier. This may result in future reporting of gross profit as a percentage of net sales that is in excess of what we might have obtained absent our relationship with Ablecom.

Our reliance on Ablecom could be subject to risks associated with our reliance on a limited source of contract manufacturing services and inventory warehousing.

We continue to maintain our manufacturing relationship with Ablecom in Asia. In order to provide a larger volume of contract manufacturing services for us, Ablecom will continue to warehouse for us an increasing number of components and subassemblies manufactured by multiple suppliers prior to shipment to our facilities in the U.S. and Europe. We also anticipate that we will continue to lease office space from Ablecom in Taiwan to support the research and development efforts we are undertaking and continue to operate a joint management company with Ablecom to manage the common areas shared by us and Ablecom for our separately constructed manufacturing facilities in Taiwan.

If we or Ablecom fail to manage the contract manufacturing services and warehouse operations in Asia, we may experience delays in our ability to fulfill customer orders. Similarly, if Ablecom's facility in Asia is subject to damage, destruction or other disruptions, our inventory may be damaged or destroyed, and we may be unable to find adequate alternative providers of contract manufacturing services in the time that we or our customers require. We could lose orders and be unable to develop or sell some products cost-effectively or on a timely basis, if at all.

Currently, we purchase contract manufacturing services primarily for our chassis and power supply products from Ablecom. If our commercial relationship with Ablecom were to deteriorate or terminate, establishing direct relationships with those entities supplying Ablecom with key materials for our products or identifying and negotiating agreements with alternative providers of warehouse and contract manufacturing services might take a considerable amount of time and require a significant investment of resources. Pursuant to our agreements with Ablecom and subject to certain exceptions, Ablecom has the exclusive right to be our supplier of the specific products developed under such agreements. As a result, if we are unable to obtain such products from Ablecom on terms acceptable to us, we may need to identify a new supplier, change our design and acquire new tooling, all of which could result in delays in our product availability and increased costs. If we need to use other suppliers, we may not be able to establish business arrangements that are, individually or in the aggregate, as favorable as the terms and conditions we have established with Ablecom. If any of these things should occur, our net sales, margins and earnings could significantly decrease, which would have a material adverse effect on our business.

Our growth into markets outside the United States exposes us to risks inherent in international business operations.

We market and sell our systems and components both domestically and outside the United States. We intend to expand our international sales efforts, especially into Asia and are expanding our business operations in Europe and Asia, particularly in Taiwan, the Netherlands, China and Japan. In particular, we have and continue to make substantial investments for the purchase of land and the development of new facilities in Taiwan to accommodate our expected growth. Our international expansion efforts may not be successful. Our international operations expose us to risks and challenges that we would otherwise not face if we conducted our business only in the United States, such as:

- heightened price sensitivity from customers in emerging markets;
- our ability to establish local manufacturing, support and service functions, and to form channel relationships with resellers in non-U.S. markets;
- localization of our systems and components, including translation into foreign languages and the associated expenses;

WEST\249206192.2

16

---



Table of Contents

- compliance with multiple, conflicting and changing governmental laws and regulations;
- foreign currency fluctuations;
- limited visibility into sales of our products by our distributors;
- laws favoring local competitors;
- weaker legal protections of intellectual property rights and mechanisms for enforcing those rights;
- market disruptions created by public health crises in regions outside the U.S., such as Avian flu, SARS and other diseases;
- difficulties in staffing and managing foreign operations, including challenges presented by relationships with workers' councils and labor unions; and
- changing regional economic and political conditions.

These factors could limit our future international sales or otherwise adversely impact our operations or our results of operations.

We have in the past entered into plea and settlement agreements with the government relating to violations of export control and related laws; if we fail to comply with laws and regulations restricting dealings with sanctioned countries, we may be subject to future civil or criminal penalties, which may have a material adverse effect on our business or ability to do business outside the United States.

In 2006, we entered into certain plea and settlement agreement with government agencies relating to export control and related law violations for activities that occurred in the 2001 to 2003 time frame. We believe we are currently in compliance in all material respects with applicable export related laws and regulations. However, if our export compliance program is not effective, or if we are subject to any future claims regarding violation of export control and economic sanctions laws, we could be subject to civil or criminal penalties, which could lead to a material fine or other sanctions, including loss of export privileges, that may have a material adverse effect on our business, financial condition, results of operation and future prospects. In addition, these plea and settlement agreements and any future violations could have an adverse impact on our ability to sell our products to United States federal, state and local government and related entities.

Any failure to protect our intellectual property rights, trade secrets and technical know-how could impair our brand and our competitiveness.

Our ability to prevent competitors from gaining access to our technology is essential to our success. If we fail to protect our intellectual property rights adequately, we may lose an important advantage in the markets in which we compete. Trademark, patent, copyright and trade secret laws in the United States and other jurisdictions as well as our internal confidentiality procedures and contractual provisions are the core of our efforts to protect our proprietary technology and our brand. Our patents and other intellectual property rights may be challenged by others or invalidated through administrative process or litigation, and we may initiate claims or litigation against third parties for infringement of our proprietary rights. Such administrative proceedings and litigation are inherently uncertain and divert resources that could be put towards other business priorities. We may not be able to obtain a favorable outcome and may spend considerable resources in our efforts to defend and protect our intellectual property.

Furthermore, legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain. Effective patent, trademark, copyright and trade secret protection may not be available to us in every country in which our products are available. The laws of some foreign countries may not be as protective of intellectual property rights as those in the United States, and mechanisms for enforcement of intellectual property rights may be inadequate.

Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property and using our technology for their competitive advantage. Any such infringement or misappropriation could have a material adverse effect on our business, results of operations and financial condition.

Resolution of claims that we have violated or may violate the intellectual property rights of others could require us to indemnify our customers, resellers or vendors, redesign our products, or pay significant royalties to third parties, and materially harm our business.

Our industry is marked by a large number of patents, copyrights, trade secrets and trademarks and by frequent litigation based on allegations of infringement or other violation of intellectual property rights. Our primary competitors have substantially greater numbers of issued patents than we have which may position us less favorably in the event of any claims or litigation with them. Other third-parties have in the past sent us correspondence regarding their intellectual property or filed

WEST\249206192.2

17

---

Table of Contents

claims that our products infringe or violate third parties' intellectual property rights. In addition, increasingly non-operating companies are purchasing patents and bringing claims against technology companies. We have been subject to several such claims and may be subject to such claims in the future.

Successful intellectual property claims against us from others could result in significant financial liability or prevent us from operating our business or portions of our business as we currently conduct it or as we may later conduct it. In addition, resolution of claims may require us to redesign our technology, to obtain licenses to use intellectual property belonging to third parties, which we may not be able to obtain on reasonable terms, to cease using the technology covered by those rights, and to indemnify our customers, resellers or vendors. Any claim, regardless of its merits, could be expensive and time consuming to defend against, and divert the attention of our technical and management resources.

If we lose Charles Liang, our President, Chief Executive Officer and Chairman, or any other key employee or are unable to attract additional key employees, we may not be able to implement our business strategy in a timely manner.

Our future success depends in large part upon the continued service of our executive management team and other key employees. In particular, Charles Liang, our President, Chief Executive Officer and Chairman of the Board, is critical to the overall management of our company as well as to the development of our culture and our strategic direction. Mr. Liang co-founded our company and has been our Chief Executive Officer since our inception. His experience in running our business and his personal involvement in key relationships with suppliers, customers and strategic partners are extremely valuable to our company. We currently do not have a succession plan for the replacement of Mr. Liang if it were to become necessary. Additionally, we are particularly dependent on the continued service of our existing research and development personnel because of the complexity of our products and technologies. Our employment arrangements with our executives and employees do not require them to provide services to us for any specific length of time, and they can terminate their employment with us at any time, with or without notice, without penalty. The loss of services of any of these executives or of one or more other key members of our team could seriously harm our business.

To execute our growth plan, we must attract additional highly qualified personnel, including additional engineers and executive staff. Competition for qualified personnel is intense, especially in San Jose, where we are headquartered. We have experienced in the past and may continue to experience difficulty in hiring and retaining highly skilled employees with appropriate qualifications. In particular, we are currently working to add personnel in our finance, accounting and general administration departments, which have historically had limited budgets and staffing. If we are unable to attract and integrate additional key employees in a manner that enables us to scale our business and operations effectively, or if we do not maintain competitive compensation policies to retain our employees, our ability to operate effectively and efficiently could be limited.

Backlog does not provide a substantial portion of our net sales in any quarter.

Our net sales are difficult to forecast because we do not have sufficient backlog of unfilled orders to meet our quarterly net sales targets at the beginning of a quarter. Rather, a majority of our net sales in any quarter depend upon customer orders that we receive and fulfill in that quarter. Because our expense levels are based in part on our expectations as to future net sales and to a large extent are fixed in the short term, we might be unable to adjust spending in time to compensate for any shortfall in net sales. Accordingly, any significant shortfall of revenues in relation to our expectations would harm our operating results.

Our business and operations are especially subject to the risks of earthquakes and other natural catastrophic events.

Our corporate headquarters, including our most significant research and development and manufacturing operations, are located in the Silicon Valley area of Northern California, a region known for seismic activity. We have also

established significant manufacturing and research and development operations in Taiwan which is also subject to seismic activity risks. We do not currently have a comprehensive disaster recovery program and as a result, a significant natural disaster, such as an earthquake, could have a material adverse impact on our business, operating results, and financial condition. Although we are in the process of preparing such a program, there is no assurance that it will be effective in the event of such a disaster.

If we are unable to favorably assess the effectiveness of our internal control over financial reporting, or if our independent auditors are unable to provide an unqualified attestation report on our internal control over financial reporting, our stock price could be adversely affected.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, our management is required to report on the effectiveness of our internal control over financial reporting in our annual reports. In addition, our independent auditors must attest to and report on the effectiveness of our internal control over financial reporting. The rules governing the standards that must be met for management to assess our internal control over financial reporting are complex, and require significant

WEST\249206192.2

18

---

Table of Contents

documentation, testing and possible remediation. As a result, our efforts to comply with Section 404 have required the commitment of significant managerial and financial resources. As we are committed to maintaining high standards of public disclosure, our efforts to comply with Section 404 are ongoing, and we are continuously in the process of reviewing, documenting and testing our internal control over financial reporting, which will result in continued commitment of significant financial and managerial resources. Although we strive to maintain effective internal controls over financial reporting in order to prevent and detect material misstatements in our annual and quarterly financial statements and prevent fraud, we cannot assure that such efforts will be effective. If we fail to maintain effective internal controls in future periods, our operating results, financial position and stock price could be adversely affected.

Our operations involve the use of hazardous and toxic materials, and we must comply with environmental laws and regulations, which can be expensive, and may affect our business and operating results.

We are subject to federal, state and local regulations relating to the use, handling, storage, disposal and human exposure to hazardous and toxic materials. If we were to violate or become liable under environmental laws in the future as a result of our inability to obtain permits, human error, accident, equipment failure or other causes, we could be subject to fines, costs, or civil or criminal sanctions, face third party property damage or personal injury claims or be required to incur substantial investigation or remediation costs, which could be material, or experience disruptions in our operations, any of which could have a material adverse effect on our business. In addition, environmental laws could become more stringent over time imposing greater compliance costs and increasing risks and penalties associated with violations, which could harm our business.

We also face increasing complexity in our product design as we adjust to new and future requirements relating to the materials composition of our products, including the restrictions on lead and other hazardous substances applicable to specified electronic products placed on the market in the European Union (Restriction on the Use of Hazardous Substances Directive 2002/95/EC, also known as the RoHS Directive). We are also subject to laws and regulations such as California's "Proposition 65" which requires that clear and reasonable warnings be given to consumers who are exposed to certain chemicals deemed by the State of California to be dangerous, such as lead. We expect that our operations will be affected by other new environmental laws and regulations on an ongoing basis. Although we cannot predict the ultimate impact of any such new laws and regulations, they will likely result in additional costs, and could require that we change the design and/or manufacturing of our products, any of which could have a material adverse effect on our business.

We are also subject to new regulations concerning the supply of minerals coming from the conflict zones in and around the Democratic Republic of Congo. New U.S. legislation includes disclosure requirements regarding the use of conflict minerals mined from the Democratic Republic of Congo and adjoining countries and procedures regarding a manufacturer's efforts to prevent the sourcing of such conflict minerals. The implementation of these requirements could affect the sourcing and availability of minerals used in the manufacture of semiconductor or other devices. As a result, there may only be a limited pool of suppliers who provide conflict-free metals, and we cannot assure you that we will be able to obtain products in sufficient quantities or at competitive prices.

**Risks Related to Owning Our Stock**

The trading price of our common stock is likely to be volatile, and you might not be able to sell your shares at or above the price at which you purchased the shares.

The trading prices of technology company securities historically have been highly volatile and the trading price of our common stock has been and is likely to continue to be subject to wide fluctuations. Factors, in addition to those outlined elsewhere in this filing, that may affect the trading price of our common stock include:

- actual or anticipated variations in our operating results;
- announcements of technological innovations, new products or product enhancements, strategic alliances or significant agreements by us or by our competitors;
- changes in recommendations by any securities analysts that elect to follow our common stock;
- the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- the loss of a key customer;
- the loss of key personnel;
- technological advancements rendering our products less valuable;
- lawsuits filed against us;
- changes in operating performance and stock market valuations of other companies that sell similar products;

WEST\249206192.2

19

---

Table of Contents

price and volume fluctuations in the overall stock market;  
market conditions in our industry, the industries of our customers and the economy as a whole; and  
other events or factors, including those resulting from war, incidents of terrorism or responses to these events.

Future sales of shares by existing stockholders could cause our stock price to decline.

Attempts by existing stockholders to sell substantial amounts of our common stock in the public market could cause the trading price of our common stock to decline significantly. All of our shares are eligible for sale in the public market, including shares held by directors, executive officers and other affiliates, sales of which are subject to volume limitations under Rule 144 under the Securities Act. In addition, shares subject to outstanding options and reserved for future issuance under our stock option plans are eligible for sale in the public market to the extent permitted by the provisions of various vesting agreements. If these additional shares are sold, or if it is perceived that they will be sold in the public market, the trading price of our common stock could decline.

If securities analysts do not publish research or reports about our business or if they downgrade our stock, the price of our stock could decline.

The research and reports that industry or financial analysts publish about us or our business likely have an effect on the trading price of our common stock. If an industry analyst decides not to cover our company, or if an industry analyst decides to cease covering our company at some point in the future, we could lose visibility in the market, which in turn could cause our stock price to decline. If an industry analyst downgrades our stock, our stock price would likely decline rapidly in response.

The concentration of our capital stock ownership with insiders will likely limit your ability to influence corporate matters.

As of August 31, 2014, our executive officers, directors, current five percent or greater stockholders and affiliated entities together beneficially owned 39.0% of our common stock, net of treasury stock. As a result, these stockholders, acting together, will have significant influence over all matters that require approval by our stockholders, including the election of directors and approval of significant corporate transactions. Corporate action might be taken even if other stockholders oppose them. This concentration of ownership might also have the effect of delaying or preventing a change of control of our company that other stockholders may view as beneficial.

Provisions of our certificate of incorporation and bylaws and Delaware law might discourage, delay or prevent a change of control of our company or changes in our management and, as a result, depress the trading price of our common stock.

Our certificate of incorporation and bylaws contain provisions that could discourage, delay or prevent a change in control of our company or changes in our management that the stockholders of our company may deem advantageous. These provisions:

- establish a classified board of directors so that not all members of our board are elected at one time;
- require super-majority voting to amend some provisions in our certificate of incorporation and bylaws;
- authorize the issuance of “blank check” preferred stock that our board could issue to increase the number of outstanding shares and to discourage a takeover attempt;
- limit the ability of our stockholders to call special meetings of stockholders;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- provide that the board of directors is expressly authorized to adopt, or to alter or repeal our bylaws; and

establish advance notice requirements for nominations for election to our board or for proposing matters that can be acted upon by stockholders at stockholder meetings.

In addition, we are subject to Section 203 of the Delaware General Corporation Law, which, subject to some exceptions, prohibits “business combinations” between a Delaware corporation and an “interested stockholder,” which is generally defined as a stockholder who becomes a beneficial owner of 15% or more of a Delaware corporation’s voting stock for a three-year period following the date that the stockholder became an interested stockholder. Section 203 could have the effect of delaying, deferring or preventing a change in control that our stockholders might consider to be in their best interests.

WEST\249206192.2

20

---



## Table of Contents

These anti-takeover defenses could discourage, delay or prevent a transaction involving a change in control of our company. These provisions could also discourage proxy contests and make it more difficult for stockholders to elect directors of their choosing and cause us to take corporate actions other than those stockholders desire.

We do not expect to pay any cash dividends for the foreseeable future.

We do not anticipate that we will pay any cash dividends to holders of our common stock in the foreseeable future. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking cash dividends in the foreseeable future should not purchase our common stock.

### Item 1B. Unresolved Staff Comments

Not applicable.

### Item 2. Properties

Our principal executive offices, research and development center and production operations are located in San Jose, California where we own approximately 552,000 square feet of office and manufacturing space subject to existing mortgage loan and line of credit with \$24.2 million remaining outstanding as of June 30, 2014. We lease approximately 247,000 square feet of warehouse in Fremont, California under a lease that expires in 2015, lease approximately 54,000 square feet of warehouse in San Jose, California under a lease that expires in October 2014 and lease approximately 25,000 square feet of office space in San Jose, California under a lease that expires in 2016. Our European headquarters for manufacturing and service operations is located in Denbosch, the Netherlands where we lease approximately 58,000 square feet of office space under four leases, which expire in 2016. In Asia, our manufacturing facilities are located in Taoyuan County, Taiwan where we own approximately 211,000 square feet of office and manufacturing space on 7.0 acres of land. These manufacturing facilities are subject to existing term loan with \$22.1 million remaining outstanding as of June 30, 2014. Our research and development center and service operations in Asia are located in an approximately 52,000 square feet facility in Taipei, Taiwan under four leases that expire at various dates through 2016. We lease approximately 4,000 square feet of office space in Dongguan, Shanghai and Beijing, China under three leases that expire at various dates through 2016 for sales and service operations. In addition, we lease approximately 2,000 square feet of office space in Japan under one lease, which expire in 2016. We believe that our existing properties, including both owned and leased, are in good condition and are suitable for the conduct of our business. We also productively utilizes the majority of the space in our facilities.

On October 31, 2013, we purchased real property located in San Jose, California, which consists of approximately 324,000 square feet of building space on 36 acres of land. In connection with the purchase, we also engaged several contractors for the development and construction of improvements on the property that will serve as our Green Computing Park. We plan to develop five manufacturing buildings on the land and remodel one existing warehouse in which two of the buildings and the warehouse will be constructed and remodeled through fiscal year 2016. We plan to finance this development through our operating cash flows and additional borrowings from banks.

### Item 3. Legal Proceedings

From time to time, we have been involved in various legal proceedings arising from the normal course of business activities. We defend ourselves vigorously against any such claims. In management's opinion, the resolution of any pending matters will not have a material adverse effect on our consolidated financial condition, results of operations, or liquidity.

Item 4. Mine Safety Disclosures  
Not applicable.

WEST\249206192.2

21

---

Table of Contents

## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

## Market Information

Our common stock trades on The NASDAQ Global Select Market under the symbol "SMCI". The following table sets forth for the periods indicated the high and low sale prices of our common stock as reported by The NASDAQ Global Select Market.

	High	Low
Fiscal Year 2013:		
First Quarter	\$16.36	\$11.73
Second Quarter	\$12.12	\$7.90
Third Quarter	\$12.72	\$9.98
Fourth Quarter	\$11.29	\$9.41
	High	Low
Fiscal Year 2014:		
First Quarter	\$13.76	\$10.81
Second Quarter	\$17.18	\$13.47
Third Quarter	\$22.97	\$16.44
Fourth Quarter	\$26.03	\$16.52

## Holders

As of August 31, 2014, there were 30 registered stockholders of record of our common stock. Because most of our shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of beneficial stockholders represented by these record holders.

## Dividend Policy

We have never declared or paid cash dividends on our capital stock. We intend to retain any future earnings and do not expect to pay any dividends in the foreseeable future.

## Equity Compensation Plan

Please see Part III, Item 12 of this report for disclosure relating to our equity compensation plans.

## Stock Performance Graph

This performance graph shall not be deemed "soliciting material" or to be "filed" with the SEC for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of Super Micro Computer, Inc. under the Securities Act of 1933, as amended, or the Exchange Act.

The following graph compares our cumulative five-year total stockholder return on our common stock with the cumulative return of the NASDAQ Computer Index and the NASDAQ Composite Index, which both include our common stock, for the comparable period.

The graph reflects an investment of \$100 (with reinvestment of all dividends, if any) in our common stock, the NASDAQ Computer Index and the NASDAQ Composite Index, on June 30, 2009 and its relative performance tracked through June 30, 2014. The stockholder return shown on the graph below is not necessarily indicative of future performance, and we do not make or endorse any predictions as to future stockholder returns.

WEST\249206192.2

22

---

Table of Contents

	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013	6/30/2014
Super Micro Computer, Inc.	100.00	176.24	210.05	207.05	138.90	329.90
NASDAQ Composite Index	100.00	114.94	151.14	159.94	185.46	240.22
NASDAQ Computer Index	100.00	119.61	156.85	177.67	181.64	252.61

## Recent Sales of Unregistered Securities

None.

## Issuer Purchases of Equity Securities

None.

## Item 6. Selected Financial Data

The following selected consolidated financial data is qualified by reference to, and should be read in conjunction with, our Consolidated Financial Statements and notes thereto in Part II, Item 8 and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7, of this Annual Report on Form 10-K. Our historical results are not necessarily indicative of the results to be expected in any future period.

WEST\249206192.2

23

Table of Contents

	Fiscal Years Ended June 30,				
	2014	2013	2012	2011	2010
	(in thousands, except per share data)				
<b>Consolidated Statements of Operations Data:</b>					
Net sales	\$1,467,202	\$1,162,561	\$1,013,874	\$942,582	\$721,438
Cost of sales	1,241,657	1,002,508	848,457	791,478	606,446
Gross profit	225,545	160,053	165,417	151,104	114,992
Operating expenses:					
Research and development	84,257	75,208	64,223	48,108	37,382
Sales and marketing	38,012	33,785	33,308	26,859	20,458
General and administrative	23,017	23,902	21,872	17,444	15,318
Provision for litigation loss	—	—	—	—	1,089
Total operating expenses	145,286	132,895	119,403	92,411	74,247
Income from operations	80,259	27,158	46,014	58,693	40,745
Interest and other income, net	92	48	54	66	103
Interest expense	(757)	(610)	(717)	(686)	(383)
Income before income tax provision	79,594	26,596	45,351	58,073	40,465
Income tax provision	25,437	5,317	15,498	17,860	13,550
Net income	\$54,157	\$21,279	\$29,853	\$40,213	\$26,915
Net income per share:					
Basic	\$1.24	\$0.50	\$0.72	\$1.04	\$0.73
Diluted	\$1.16	\$0.48	\$0.67	\$0.93	\$0.65
Shares used in per share calculation:					
Basic	43,599	41,992	40,890	38,132	35,883
Diluted	46,512	43,907	44,152	42,396	40,735
Stock-based compensation:					
Cost of sales	\$941	\$953	\$783	\$812	\$573
Research and development	6,783	6,527	5,542	4,077	3,106
Sales and marketing	1,260	1,541	1,469	1,077	880
General and administrative	2,078	2,340	2,458	2,090	1,898
Total stock-based compensation	\$11,062	\$11,361	\$10,252	\$8,056	\$6,457

	As of June 30,				
	2014	2013	2012	2011	2010
	(in thousands)				
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$96,872	\$93,038	\$80,826	\$69,943	\$72,644
Working capital	343,195	281,528	261,404	228,975	158,982
Total assets	796,325	632,257	589,103	464,620	370,762
Long-term obligations, net of current portion(1)	16,208	16,869	30,244	36,716	8,186
Total stockholders' equity	469,231	373,724	338,351	287,257	224,701

\$3.7 million, \$6.5 million, \$9.3 million and \$27.6 million of our long-term obligations, net of current portion (1) consisted of building loans at June 30, 2014, 2013, 2012 and 2011, respectively. \$18.6 million of our short-term debt related to building loans at June 30, 2010 was refinanced to long-term debt at June 30, 2011.



Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements and related notes which appear elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Annual Report on Form 10-K, particularly under the heading "Risk Factors."

Overview

We are a global leader in high-performance, high-efficiency server technology and innovation. We develop and provide end-to-end green computing solutions to the Data Center, Cloud Computing, Enterprise IT, Big Data, HPC and Embedded markets. Our solutions range from complete server, storage, blade and workstations to full racks, networking devices, server management software and technology support and services. For fiscal years 2014, 2013 and 2012, net sales of optimized servers were \$740.8 million, \$501.9 million and \$447.0 million, respectively, and net sales of subsystems and accessories were \$726.4 million, \$660.7 million and \$566.9 million, respectively. The increase in fiscal year 2014 compared with fiscal year 2013 was primarily due to increased sales of our products optimized for the storage, HPC, Cloud Computing, Data Center and OEM verticals. In addition, the percentage of our net sales represented by sales of complete server systems increased to 50.5% in fiscal year 2014 from 43.2% in fiscal year 2013. We also benefited from the technology transition from Intel's Sandybridge to Ivybridge processor in fiscal year 2014.

We commenced operations in 1993 and have been profitable every year since inception. For fiscal years 2014, 2013 and 2012, our net sales were \$1,467.2 million, \$1,162.6 million and \$1,013.9 million, respectively, and our net income was \$54.2 million, \$21.3 million and \$29.9 million, respectively. Our increase in net income in fiscal year 2014 was primarily attributable to an increase in our gross profit resulting primarily from higher sales of server systems and higher utilization of our manufacturing facilities in Taiwan, partially offset by higher research and development expenses.

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. For fiscal years 2014, 2013 and 2012, we derived 54.1%, 56.3% and 54.4%, respectively, of our net sales from products sold to distributors, and derived 45.9%, 43.7% and 45.6% from sales to OEMs and to end customers, respectively. None of our customers accounted for 10% or more of our net sales in fiscal years 2014, 2013 and 2012. For fiscal years 2014, 2013 and 2012, we derived 55.2%, 54.2% and 58.2%, respectively, of our net sales from customers in the United States.

We perform the majority of our research and development efforts in-house. For fiscal years 2014, 2013 and 2012, research and development expenses represented 5.7%, 6.5% and 6.3% of our net sales, 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 2014, we continued to increase manufacturing and service operations in Taiwan and the Netherlands to support our Asian and European customers and we have increased our utilization of our overseas manufacturing capacity. One of our key suppliers is Ablecom, a related party, which supplies us with contract design and manufacturing support. For fiscal years 2014, 2013 and 2012, our purchases from Ablecom represented 16.3%, 17.9% and 19.9% of our cost of sales, 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 cost of sales. 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

WEST\249206192.2

25

## Table of Contents

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 fiscal year 2014:

Net cash provided by operating activities was \$6.5 million, \$13.6 million and \$16.5 million in fiscal year 2014, 2013 and 2012, respectively. Our cash and cash equivalents, together with our investments, were \$99.6 million at the end of fiscal year 2014, compared with \$95.7 million at the end of fiscal year 2013. The increase in our cash and cash equivalents, together with our investments at the end of fiscal year 2014 was primarily due to \$6.5 million of cash generated from our operating activities, \$23.9 million of proceeds from the exercise of stock options and \$11.0 million of borrowings, net of repayments, offset in part by \$40.6 million of purchases of property and equipment.

Days sales outstanding in accounts receivable (“DSO”) at the end of fiscal year 2014 was 44 days, compared with 39 days at the end of fiscal year 2013. The increase in our DSO was primarily due to an increase in sales late in the quarter.

Our inventory balance was \$315.8 million at the end of fiscal year 2014, compared with \$254.2 million at the end of fiscal year 2013. Days sales of inventory (“DSI”) at the end of fiscal year 2014 was 83 days, compared with 95 days at the end of fiscal year 2013. The increase in our inventory was to support our anticipated level of growth in net sales in fiscal year 2015.

Our purchase commitments with contract manufacturers and suppliers were \$211.1 million at the end of fiscal year 2014 and \$249.0 million at the end of fiscal year 2013. Included in the above non-cancellable commitments are hard disk drive purchase commitments totaling approximately \$45.2 million, which have terms expiring through December 2014. See Note 12 of Notes to our Consolidated Financial Statements in Item 8 of this Form 10-K for a discussion of purchase commitments.

On October 31, 2013, we completed the purchase of real property in San Jose, California for \$30.2 million. The property consists of approximately 324,000 square feet of building space on 36 acres of land. In connection with the purchase, we also engaged several contractors for the development and construction of improvements on the property that will serve as our Green Computing Park. We plan to develop five manufacturing buildings and remodel one existing warehouse on the land in which two of the buildings and the improvement of the warehouse will be constructed through fiscal year 2016.

## Fiscal Year

Our fiscal year ends on June 30. References to fiscal year 2014, for example, refer to the fiscal year ended June 30, 2014.

Table of Contents

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, but generally higher in the case of sales of server systems to internet data system customers. Because we generally 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 incentive bonuses 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.

Interest and other expense, net. Interest and other expense, net represents interest expense on our term loans and line of credit, offset by interest earned on our investment and 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, Taiwan, the Netherlands, and to a lesser extent, China and Japan.

Our effective tax rate differs from the statutory rate primarily due to research and development tax credits, the domestic production activities deduction and lower taxes in foreign jurisdictions which were partially offset by the impact of state taxes and stock option expenses. In recent years, our effective tax rate from period to period has been significantly impacted by delays in the approval of extensions of the U.S. research and development tax credit. A reconciliation of the federal statutory income tax rate to our effective tax rate is set forth in Note 11 of Notes to Consolidated Financial Statements.

WEST\249206192.2

27

---

## Table of Contents

### Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated 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, cooperative marketing accruals, investment valuations, 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, for which revenue is recognized when the products arrive 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 June 30, 2014 and 2013, we had deferred revenue of \$7.7 million and \$1.0 million and related deferred product costs of \$6.7 million and \$0.7 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 concentration, 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. Our provision for bad debt was \$1.5 million, \$0.9 million and \$0.2 million in fiscal years 2014, 2013 and 2012, respectively. If a major customer's creditworthiness deteriorates, if actual defaults are higher than our historical experience, or if other circumstances arise, our estimates of the recoverability of amounts due to us could be overstated, and additional allowances could be required, which could have an adverse impact on

our reported operating expenses. 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.

We have an immaterial amount of service revenue relating to on-site service and non-warranty repairs. Revenue for on-site service is recognized over the contracted service period, and revenue for non-warranty repair service 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

WEST\249206192.2

28

---

Table of Contents

charged to cost of sales and included in accrued liabilities. The liability for product warranties was \$7.1 million as of June 30, 2014, compared with \$6.5 million as of June 30, 2013. The provision for warranty reserve was \$14.2 million, \$13.4 million and \$12.2 million in fiscal years 2014, 2013 and 2012, respectively. Our estimates and assumptions used have been historically close to actual. The change in estimated liability for pre-existing warranties was \$0.4 million, (\$1,000) and \$0.7 million in fiscal years 2014, 2013 and 2012, respectively. As a result of our increase in cost of servicing warranty claims from our increase in net sales in fiscal year 2014 and 2013, the provision for warranty reserve increased \$0.7 million and \$1.2 million in fiscal year 2014 and 2013, respectively. 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 based upon the number of units that are unlikely to be sold based upon estimated demand for the following twelve months as well as historical usage and sales activity. This evaluation takes into account matters including expected demand, historical usage and sales, 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 \$2.3 million, \$9.7 million and \$8.6 million in fiscal years 2014, 2013 and 2012, 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 11 of Notes to Consolidated Financial Statements for the impact on our 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 \$11.1 million, \$11.4 million and \$10.3 million for the years ended June 30, 2014, 2013 and 2012, respectively.

As of June 30, 2014, 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 \$19.2 million, which is expected to be recognized as an expense over a weighted-average period of approximately 2.40 years. See Note 10 of Notes to our 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

WEST\249206192.2

29

---



Table of Contents

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 our implied and 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. We have concluded that Ablecom and its subsidiaries ("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 June 30, 2014, 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 fiscal year 2014 and 2013, (\$6,000) and \$13,000 of net income (loss) attributable to Ablecom's interest was included in our general and administrative expenses in the consolidated statements of operations, respectively.

## Results of Operations

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

	Years Ended June 30,			
	2014	2013	2012	
Net sales	100.0	% 100.0	% 100.0	%
Cost of sales	84.6	86.2	83.7	
Gross profit	15.4	13.8	16.3	
Operating expenses:				
Research and development	5.7	6.5	6.3	
Sales and marketing	2.6	2.9	3.3	
General and administrative	1.6	2.1	2.2	
Total operating expenses	9.9	11.5	11.8	
Income from operations	5.5	2.3	4.5	
Interest and other income, net	—	—	—	
Interest expense	(0.1	) (0.1	) —	
Income before income tax provision	5.4	2.2	4.5	
Income tax provision	1.7	0.4	1.6	
Net income	3.7	% 1.8	% 2.9	%

## Comparison of Fiscal Years Ended June 30, 2014 and 2013

Net sales. Net sales increased by \$304.6 million, or 26.2%, to \$1,467.2 million from \$1,162.6 million, for fiscal year 2014 and 2013, respectively. This increase was due primarily to an increase in the average selling price of our server systems and to a lesser extent an increase in unit volumes of server systems as we sold more higher density server systems.

For fiscal year 2014, the number of server system units sold increased 12.9% to 262,000 compared to 232,000 for fiscal year 2013. The average selling price of server system units increased 27.3% to \$2,800 in fiscal year 2014 compared to

WEST\249206192.2

30

---

Table of Contents

\$2,200 in fiscal year 2013. The average selling prices of our server systems increased primarily due to an increase in average selling prices of our complete integrated-high-end servers solutions to OEM and end customers, the Twin family of servers, storage and GPU/Xeon Phi servers which offered higher density computing and more memory and hard disk drive capacity. Sales of server systems increased by \$238.9 million or 47.6% from fiscal year 2013 to fiscal year 2014, primarily due to the increased sales of the products described above. In addition, our new server products based on Intel's Ivy Bridge processor, which was launched in September 2013, also contributed to our growth in server system sales in fiscal year 2014. Sales of server systems represented 50.5% of our net sales for fiscal year 2014 compared to 43.2% of our net sales for fiscal year 2013.

For fiscal year 2014, the number of subsystems and accessories units sold decreased 1.0% to 4.5 million compared to fiscal year 2013. Sales of subsystems and accessories increased by \$65.7 million or 9.9% from fiscal year 2013 to fiscal year 2014, primarily related to higher sales of hard disk drives and memory bundled with our server solutions to our distributors and system integrators who increasingly are purchasing additional accessories from us and completing the final assembly themselves. Sales of subsystems and accessories represented 49.5% of our net sales for fiscal year 2014 as compared to 56.8% of our net sales for fiscal year 2013.

For fiscal year 2014 and 2013, we derived 54.1% and 56.3%, respectively, of our net sales from products sold to distributors and we derived 45.9% and 43.7%, respectively, from sales to OEMs and to end customers. For fiscal year 2014, customers in the United States, Europe and Asia accounted for 55.2%, 21.6% and 20.4%, of our net sales, respectively, as compared to 54.2%, 22.7% and 20.5% of our net sales, respectively, for fiscal year 2013.

Cost of sales. Cost of sales increased by \$239.1 million, or 23.9%, to \$1,241.7 million from \$1,002.5 million, for fiscal year 2014 and 2013, respectively. Cost of sales as a percentage of net sales was 84.6% and 86.2% for fiscal year 2014 and 2013, respectively. The increase in absolute dollars of cost of sales was primarily attributable to the increase in net sales partially offset by a decrease of \$7.5 million in provision for inventory reserve. The lower cost of sales as a percentage of net sales was primarily due to a lower provision for inventory reserve, an increase in purchasing power, an increase in the mix of server system sales and higher utilization of our manufacturing facilities in Taiwan, offset by higher sales to internet data center customers, which generally have a lower gross margin. In fiscal year 2014, we recorded a \$2.3 million expense, net of recovery, or 0.2% of net sales, related to the inventory provision as compared to \$9.7 million, or 0.8% of net sales, in fiscal year 2013. The decrease in the inventory provision was primarily due to lower inventory reserves for special items and higher sales of previously reserved inventory of \$9.3 million as we have improved our processes and reduced our excess and slow moving inventory.

In fiscal year 2014, we recorded a \$14.2 million expense, or 1.0% of net sales, related to the provision for warranty reserve as compared to \$13.4 million, or 1.2% of net sales, in fiscal year 2013. The increase in the provision for warranty reserve was primarily due to higher cost of servicing warranty claims from higher net sales in fiscal year 2014. 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, our gross margin would be affected.

Research and development expenses. Research and development expenses increased by \$9.0 million, or 12.0%, to \$84.3 million from \$75.2 million, for fiscal year 2014 and 2013, respectively. Research and development expenses were 5.7% and 6.5% of net sales for fiscal year 2014 and 2013, respectively. The increase in absolute dollars was primarily due to an increase of \$7.8 million in compensation and benefits resulting from annual salary increases and growth in research and development personnel related to expanded product development initiatives in the United States and in Taiwan and an increase of \$2.7 million in development expenses for prototype materials and testing associated with new product introductions, particularly related to the introduction of new products including servers based on Intel's Ivy Bridge processor, TwinPro, EX DP and MicroBlade series of servers and the development of new products associated to the new processor technology, Grantley, from Intel. This increase was partially offset by an

increase of \$1.0 million in non-recurring engineering funding from certain suppliers and customers. The decrease as a percentage of net sales was primarily due to the significant increase in net sales in fiscal year 2014.

Research and development expenses include stock-based compensation expense of \$6.8 million and \$6.5 million for fiscal year 2014 and 2013, respectively.

Sales and marketing expenses. Sales and marketing expenses increased by \$4.2 million, or 12.5%, to \$38.0 million from \$33.8 million, for fiscal year 2014 and 2013, respectively. Sales and marketing expenses were 2.6% and 2.9% of net sales for fiscal year 2014 and 2013, respectively. The increase in absolute dollars was primarily due to an increase of \$2.3 million in compensation and benefits resulting from growth in sales and marketing personnel and an increase of \$1.1 million in

WEST\249206192.2

31

---

Table of Contents

advertising and marketing promotional expenses including cooperating marketing expenses. The decrease as a percentage of net sales was primarily due to the significant increase in net sales in fiscal year 2014.

Sales and marketing expenses include stock-based compensation expense of \$1.3 million and \$1.5 million for fiscal year 2014 and 2013, respectively.

General and administrative expenses. General and administrative expenses decreased by \$0.9 million, or 3.7%, to \$23.0 million from \$23.9 million, for fiscal year 2014 and 2013, respectively. General and administrative expenses were 1.6% and 2.1% of net sales for fiscal year 2014 and 2013, respectively. The decrease in absolute dollars was primarily due to an increase of \$0.7 million in miscellaneous income relating to the settlement of our outstanding accounts payable with one vendor and a decrease of \$0.6 million resulting from payroll tax audit assessment in fiscal year 2013, offset in part by an increase of \$0.4 million in bad debt expenses. The decrease as a percentage of net sales was primarily due to the significant increase in net sales in fiscal year 2014.

General and administrative expenses include stock-based compensation expense of \$2.1 million and \$2.3 million for fiscal year 2014 and 2013, respectively.

Interest and other expense, net. Interest and other expense changed by \$0.1 million, to \$0.7 million of expense from \$0.6 million of expense, for fiscal year 2014 and 2013, respectively, which included \$0.8 million and \$0.6 million of interest expense for fiscal year 2014 and 2013, respectively.

Provision for income taxes. Provision for income taxes increased by \$20.1 million, or 378.4%, to \$25.4 million from \$5.3 million, for fiscal year 2014 and 2013, respectively. The effective tax rate was 32.0% and 20.0% for fiscal year 2014 and 2013, respectively. The higher income tax provision and effective tax rate for the fiscal year 2014 were primarily attributable to our higher operating income and the expiration of the U.S. federal research and development credit on December 31, 2013.

Comparison of Fiscal Years Ended June 30, 2013 and 2012

Net sales. Net sales increased by \$148.7 million, or 14.7%, to \$1,162.6 million from \$1,013.9 million, for fiscal year 2013 and 2012, respectively. This increase was due primarily to an increase in unit volumes of our subsystems and accessories and to a lesser extent an increase in the average selling price of our server systems offset by a decrease in unit volumes of server systems as we sold more higher density server systems in fiscal year 2013 compared to fiscal year 2012.

For fiscal year 2013, the number of server system units sold decreased 2.9% to 232,000 compared to 239,000 for fiscal year 2012. The average selling price of server system units increased 15.8% to \$2,200 in fiscal year 2013 compared to \$1,900 in fiscal year 2012. The average selling prices of our server systems increased primarily due to higher average selling prices of MicroCloud, FatTwin servers, storage and SuperBlades servers with Intel's Sandy Bridge processors which offered higher density computing and more memory and hard disk drive capacity. Sales of server systems increased by \$54.9 million or 12.3% from fiscal year 2012 to fiscal year 2013, primarily due to higher sales of Twin, storage, MicroCloud, GPU/Xeon Phi and SuperBlade servers solutions and complete integrated-high-end servers solutions to OEM and end customers partially offset by lower sales of rack solutions. Sales of server systems represented 43.2% of our net sales for fiscal year 2013 compared to 44.1% of our net sales for fiscal year 2012.

For fiscal year 2013, the number of subsystems and accessories units sold increased 3.6% to 4.5 million compared to 4.3 million for fiscal year 2012. Sales of subsystems and accessories increased by \$93.8 million or 16.6% from fiscal year 2012 to fiscal year 2013, primarily related to higher sales of hard disk drives, chassis, memory and serverboards

to our distributors and system integrators who purchased additional accessories from us and completed the final assembly themselves. Sales of subsystems and accessories represented 56.8% of our net sales for fiscal year 2013 as compared to 55.9% of our net sales for fiscal year 2012.

For fiscal year 2013 and 2012, we derived 56.3% and 54.4%, respectively, of our net sales from products sold to distributors and we derived 43.7% and 45.6%, respectively, from sales to OEMs and to end customers. For fiscal year 2013, customers in the United States, Europe and Asia accounted for 54.2%, 22.7% and 20.5%, of our net sales, respectively, as compared to 58.2%, 21.8% and 17.4% of our net sales, respectively, for fiscal year 2012.

Cost of sales. Cost of sales increased by \$154.1 million, or 18.2%, to \$1,002.5 million from \$848.5 million, for fiscal year 2013 and 2012, respectively. Cost of sales as a percentage of net sales was 86.2% and 83.7% for fiscal year 2013 and 2012, respectively. The increase in absolute dollars of cost of sales was primarily attributable to the increase in net sales, an increase of \$1.2 million in provision for warranty reserve and an increase of \$1.1 million in provision for inventory reserve.

WEST\249206192.2

32

---

Table of Contents

The higher cost of sales as a percentage of net sales was primarily due to higher costs of hard disk drives as a result of our HDD supply agreement and memory bundled with our server solutions and higher mix of subsystem and accessories sales. In general, we have higher margins in server systems than in subsystems and accessories. In fiscal year 2013, we recorded a \$13.4 million expense, or 1.2% of net sales, related to the provision for warranty reserve as compared to \$12.2 million, or 1.2% of net sales, in fiscal year 2012. The increase in the provision for warranty reserve was primarily due to higher cost of servicing warranty claims from higher net sales in fiscal year 2013. In fiscal year 2013, we recorded a \$9.7 million expense, net of recovery, or 0.8% of net sales, related to the inventory provision as compared to \$8.6 million, or 0.8% of net sales, in fiscal year 2012. The increase in the inventory provision was primarily for older products as a result of product transitions.

Research and development expenses. Research and development expenses increased by \$11.0 million, or 17.1%, to \$75.2 million from \$64.2 million, for fiscal year 2013 and 2012, respectively. Research and development expenses were 6.5% and 6.3% of net sales for fiscal year 2013 and 2012, respectively. The increase in absolute dollars was primarily due to an increase of \$9.2 million in compensation and benefits including higher stock-based compensation expense, resulting from growth in research and development personnel related to expanded product development initiatives in the United States and in Taiwan, a decrease of \$0.8 million in non-recurring engineering funding from certain suppliers and customers and an increase of \$0.6 million in VAT expenses related to research and development service fees paid to our subsidiary in Taiwan. The increase as a percentage of sales was due to increased headcount and prototype material expenses relating to new product introductions, particularly related to the introduction of new products for technology launches such as Intel's Sandy Bridge and Haswell processor as well as our FatTwin solutions and product development expenses for Ivy Bridge processor.

Research and development expenses include stock-based compensation expense of \$6.5 million and \$5.5 million for fiscal year 2013 and 2012, respectively.

Sales and marketing expenses. Sales and marketing expenses increased by \$0.5 million, or 1.4%, to \$33.8 million from \$33.3 million, for fiscal year 2013 and 2012, respectively. Sales and marketing expenses were 2.9% and 3.3% of net sales for fiscal year 2013 and 2012, respectively. The increase in absolute dollars was primarily due to an increase of \$2.4 million in compensation and benefits resulting from growth in sales and marketing personnel, including higher stock-based compensation expense and an increase of \$0.5 million in advertising, promotional and trade show expenses offset in part by an increase of \$1.3 million in cooperative marketing funding received from vendors to promote the new product launches and a decrease of \$1.0 million in cooperative marketing funding to our customers.

Sales and marketing expenses include stock-based compensation expense of \$1.5 million for both fiscal year 2013 and 2012.

General and administrative expenses. General and administrative expenses increased by \$2.0 million, or 9.3%, to \$23.9 million from \$21.9 million, for fiscal year 2013 and 2012, respectively. General and administrative expenses were 2.1% and 2.2% of net sales for fiscal year 2013 and 2012, respectively. The increase in absolute dollars was primarily due to an increase of \$1.1 million in compensation and benefits, including higher stock-based compensation expense, in part to support the expansion of our operations at our headquarters and operations in Taiwan, an increase of \$0.7 million in bad debt expense, an increase of \$0.6 million in payroll tax audit reserve, a decrease of \$0.2 million in rental income, an increase of \$0.3 million in miscellaneous expense relating to the settlement payment of one patent claim offset in part by a decrease of \$0.4 million in foreign currency transaction loss, a decrease of \$0.4 million in moving expenses and a decrease of \$0.4 million in legal fees.

General and administrative expenses include stock-based compensation expense of \$2.3 million and \$2.5 million for fiscal year 2013 and 2012, respectively.

Interest and other expense, net. Interest and other expense changed by \$(0.1) million, to \$0.6 million of expense from \$0.7 million of expense, for fiscal year 2013 and 2012, respectively, which included \$0.6 million and \$0.7 million of interest expense for fiscal year 2013 and 2012, respectively.

Provision for income taxes. Provision for income taxes decreased by \$10.2 million, or 65.7%, to \$5.3 million from \$15.5 million, for fiscal year 2013 and 2012, respectively. The effective tax rate was 20.0% and 34.2% for fiscal year 2013 and 2012, respectively. The lower provision for income taxes and effective tax rate for fiscal year 2013 were primarily attributable to our lower net income, a tax benefit of \$3.7 million related to the U.S. federal R&D tax credit, of which \$1.5 million related to fiscal year 2012, and the recognition of a \$2.0 million benefit related to our resolution of IRS audits for all outstanding items covering fiscal year 2008 through 2010, offset in part by an increase of \$0.8 million in stock option expense.

WEST\249206192.2

33

---



Table of Contents

Liquidity and Capital Resources

Since our inception, we have financed our growth primarily with funds generated from operations and from the proceeds of our initial public offering. In addition, we have, from time to time, utilized borrowing facilities, particularly in relation to the financing of real property acquisitions. Our cash and cash equivalents and short-term investments were \$96.9 million and \$93.1 million as of June 30, 2014 and 2013, respectively. Our cash in foreign locations was \$28.3 million and \$16.6 million at June 30, 2014 and 2013, respectively. It is management's intention to reinvest the undistributed foreign earnings indefinitely in foreign operations.

Operating Activities. Net cash provided by operating activities was \$6.5 million, \$13.6 million and \$16.5 million for fiscal years 2014, 2013 and 2012, respectively.

Net cash provided by our operating activities for fiscal year 2014 was primarily due to our net income of \$54.2 million, an increase in accounts payable of \$46.3 million, stock-based compensation expense of \$11.1 million, an increase in net income taxes payable of \$10.9 million, depreciation expense of \$6.4 million and an increase in accrued liabilities of \$3.3 million, provision for inventory of \$2.3 million, which were partially offset by an increase in accounts receivable of \$64.9 million, an increase in inventory of \$63.9 million and the excess tax benefits from stock-based compensation of \$3.0 million.

Net cash provided by our operating activities for fiscal year 2013 was primarily due to our net income of \$21.3 million, a decrease in inventory of \$12.7 million, stock-based compensation expense of \$11.4 million, provision for inventory of \$9.7 million, depreciation expense of \$7.8 million, an increase in net income taxes payable of \$4.5 million and an increase in accrued liabilities of \$4.4 million, which were partially offset by an increase in accounts receivable of \$48.3 million, deferred income taxes of \$7.0 million and a decrease in accounts payable of \$2.2 million.

Net cash provided by our operating activities for fiscal year 2012 was primarily due to our net income of \$29.9 million, an increase in accounts payable of \$61.3 million, stock-based compensation expense of \$10.3 million, an increase in net income taxes payable of \$9.0 million, provision for inventory of \$8.6 million, depreciation expense of \$7.1 million, and an increase in accrued liabilities of \$5.0 million, which were partially offset by an increase in inventory of \$92.5 million and an increase in accounts receivable of \$17.2 million.

The increase for fiscal year 2014 in accounts receivable was primarily due to an increase in our sales late in the fourth quarter. The increase for fiscal year 2014 in inventory and accounts payable was mainly due to higher purchases to support the anticipated level of growth in our net sales in fiscal year 2015. The increase for fiscal year 2014 in accrued liabilities was also due to support our growth in net sales. We anticipate that accounts receivable, inventory and accounts payable will increase to the extent we continue to grow our product lines and our business.

The increase for fiscal year 2013 in accounts receivable was primarily due to an increase in sales to customers with net payment terms and a decrease in sales to customers with electronic payment terms. The decrease for fiscal year 2013 in inventory and accounts payable was mainly due to lower hard disk drive and memory inventory. The increase for fiscal year 2013 in accrued liabilities was in part due to timing of payments to our vendors and in part due to support our growth and our increasing manufacturing activities in Taiwan. We anticipate that accounts receivable, inventory and accounts payable will increase to the extent we continue to grow our product lines and our business.

The increase for fiscal year 2012 in accounts receivable was primarily due to higher net sales in the fourth quarter of fiscal year 2012 to customers with net payment terms. The increase for fiscal year 2012 in inventory was in part due to support the anticipated level of growth in net sales in fiscal year 2012, to increase inventory relating to the Sandy Bridge processors launched by Intel in the third quarter of fiscal year 2012 and to address the disruption in the hard

disk drive supply chain as a result of the flooding in Thailand in 2011. The increase for fiscal year 2012 in accounts payable and accrued liabilities was in part due to timing of payments to our suppliers and in part due to support our growth and our increasing manufacturing activities in Taiwan. We anticipate that accounts receivable, inventory and accounts payable will continue to increase to the extent we continue to grow our product lines and our business.

Investing activities. Net cash used in our investing activities was \$40.2 million, \$5.1 million and \$19.7 million for fiscal years 2014, 2013 and 2012, respectively. In fiscal year 2014, \$40.6 million was related to the purchase of property, plant and equipment including \$30.2 million related to the real property purchased in San Jose, California in October 2013, offset in part by the termination of the certificates of deposits for \$0.4 million, which were pledged as security for a value added tax examination required by tax authority of Taiwan.

WEST\249206192.2

34

---

Table of Contents

In fiscal year 2013, \$5.0 million was related to the purchase of property, plant and equipment and \$0.4 million was related to the additional certificate of deposit pledged as security for value added tax examination required by tax authority of Taiwan. This was offset by the redemption at par of investments in auction rate securities of \$0.3 million.

In fiscal year 2012, \$22.0 million was related to the purchase of property, plant and equipment net of land deposit refund primarily related to the construction of facilities in Taiwan and the headquarters office expansion in San Jose, California. The purchase of the land in Taiwan, consisting of approximately 2.2 acres, was finalized and closed in December 2011. We also completed the construction of facilities in Taiwan and the headquarters expansion in San Jose, California in December 2011. This was offset by the redemption at par of investments in auction rate securities of \$2.5 million.

In connection with the purchase of the real property in San Jose, California, we also engaged several contractors for the development and construction of improvements on the property that will serve as our Green Computing Park. We plan to develop five manufacturing buildings on the land and remodel one existing warehouse in which two of the manufacturing facilities and the improvement on warehouse will be constructed through fiscal year 2016. We anticipate the costs of approximately \$22.1 million during fiscal year 2015 to build the first manufacturing facility and remodel the warehouse. We plan to finance this development through our operating cash flows and additional borrowings from banks.

Financing activities. Net cash provided by our financing activities was \$37.2 million, \$3.8 million and \$13.8 million for fiscal years 2014, 2013 and 2012, respectively. In fiscal year 2014, we received \$23.9 million related to the proceeds from the exercise of stock options. We withheld shares and paid the minimum tax withholding mainly on behalf of one executive officer for his restricted stock awards of \$0.7 million in fiscal year 2014. Further, we borrowed an additional \$6.8 million under the line of credit from Bank of America, borrowed \$7.0 million from the CTBC Bank secured term loan, and borrowed \$3.5 million of our CTBC Bank revolving line of credit and repaid \$6.3 million in loans in fiscal year 2014.

In fiscal year 2013, we received \$1.8 million related to the proceeds from the exercise of stock options. We withheld shares and paid the minimum tax withholding mainly on behalf of one executive officer for his restricted stock awards of \$1.0 million in fiscal year 2013. Further, we obtained a new term loan of \$15.0 million from China Trust Bank, borrowed \$5.6 million of our revolving line of credit from Bank of America, N.A., and repaid \$18.1 million in loans in fiscal year 2013.

In fiscal year 2012, we received \$8.5 million related to the proceeds from the exercise of stock options. We withheld shares and paid the minimum tax withholding on behalf of one executive officer for his restricted stock awards of \$1.1 million in fiscal year 2012. Further, we obtained a new term loan of \$14.0 million from Bank of America, N.A., borrowed \$19.7 million of our revolving line of credit and repaid \$28.9 million in loans in fiscal year 2012.

In fiscal year 2014, 2013 and 2012, \$3.0 million, \$0.9 million and \$2.0 million was related to the excess tax benefits from stock-based compensation, respectively. We expect the net cash provided by financing activities will increase throughout fiscal year 2015 as we intend to obtain additional financing from banks to construct our manufacturing buildings at our Green Computing Park in San Jose, California.

We expect to experience continued growth in our working capital requirements and capital expenditures as we continue to expand our business. Our long-term future capital requirements will depend on many factors, including our level of revenues, the timing and extent of spending to support our product development efforts, the expansion of sales and marketing activities, the timing of our introductions of new products, the costs to ensure access to adequate manufacturing capacity and the continuing market acceptance of our products. We intend to fund this continued

expansion through cash generated by operations and by drawing on the revolving credit facility or through other debt financing. However we cannot be certain whether such financing will be available on commercially reasonable or otherwise favorable terms or that such financing will be available at all. We anticipate that working capital and capital expenditures will constitute a material use of our cash resources. We have sufficient cash on hand to continue to operate for at least the next 12 months.

Other factors affecting liquidity and capital resources

Activities under Revolving Lines of Credit and Term Loans

Bank of America

In October 2011, we entered into an amendment to the existing credit agreement with Bank of America, which provided for (i) a \$40.0 million revolving line of credit facility through June 15, 2013 and (ii) a five-year \$14.0 million term loan facility. The term loan is secured by three buildings located in San Jose, California and the principal and interest are

WEST\249206192.2

35

---

## Table of Contents

payable monthly through September 30, 2016 with an interest rate at the LIBOR rate plus 1.50% per annum. The credit agreement was subsequently amended to extend the maturity date of the revolving line of credit to November 15, 2014. We are currently negotiating with Bank of America to renew the revolving line of credit.

The line of credit facility provided for borrowings denominated both in U.S. dollars and in Taiwanese dollars. 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 0.15% at June 30, 2014. For borrowings denominated in Taiwanese dollars, the interest rate for the revolving line of credit is equal to the lender's established interest rate which is adjusted monthly.

As of June 30, 2014 and 2013, the total outstanding borrowings under the Bank of America term loan was \$6.5 million and \$9.3 million, respectively. The total outstanding borrowings under the Bank of America line of credit was \$17.7 million and \$10.9 million as of June 30, 2014 and 2013, respectively. The interest rates for these loans ranged from 1.19% to 1.65% per annum at June 30, 2014 and 1.23% to 1.69% per annum at June 30, 2013, respectively. As of June 30, 2014, the unused revolving line of credit under Bank of America was \$22.3 million.

### CTBC Bank

In October 2011, we obtained an unsecured revolving line of credit from CTBC Bank totaling NT\$300.0 million or \$9.9 million U.S. dollars equivalents. In July 2012, we increased the credit line to NT\$450.0 million or \$14.9 million U.S. dollars equivalents. The term loan was 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.

In November 2013, we entered into an amendment to the existing credit agreement with CTBC Bank to increase the credit facility amount and extend the maturity date to November 30, 2014. The amendment provides for (i) a 13-month NT\$700.0 million or \$23.8 million U.S. dollar equivalents term loan secured by the land and building located in Bade, Taiwan with an interest rate equal to the lender's established NTD interest rate plus 0.25% per annum which is adjusted monthly and (ii) a 13-month unsecured term loan up to NT\$100.0 million or \$3.4 million U.S. dollar equivalents, and a 13-month revolving line of credit up to 80% of eligible accounts receivable in an aggregate amount of up to NT\$500.0 million or \$17.0 million U.S. dollar equivalents with an interest rate equal to the lender's established NTD interest rate plus 0.25% per annum or lender's established USD interest rate plus 0.30% per annum which is adjusted monthly. The total borrowings allowed under the credit agreement is capped at NT\$1.0 billion or \$34.0 million U.S. dollar equivalents.

The total outstanding borrowings under the CTBC Bank term loan was denominated in Taiwanese dollars and was translated into U.S. dollars of \$22.1 million and \$14.9 million as of June 30, 2014 and 2013, respectively. There were no outstanding borrowings under the CTBC Bank revolving line of credit at June 30, 2014 and 2013. The interest rate for the loan was at 1.15% and 1.2% per annum at June 30, 2014 and 2013, respectively. At June 30, 2014, NT\$340.0 million or \$11.4 million U.S. dollar equivalents were available for future borrowing under this credit agreement.

### 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;
-

Edgar Filing: Super Micro Computer, Inc. - Form 10-K

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, measured as of the last day of each fiscal quarter and the last day of each fiscal year.

As of June 30, 2014, our total assets of \$751.4 million collateralized the line of credit with Bank of America and were all of our assets except for the three buildings purchased in San Jose, California in June 2010 and the land and building located in Bade, Taiwan. As of June 30, 2014, total assets collateralizing the term loan with Bank of America were \$17.6 million. As of June 30, 2014, the Company was in compliance with all financial covenants associated with the term loan and line of credit with Bank of America.

WEST\249206192.2

36

---

Table of Contents

As of June 30, 2014, the net book value of land and building located in Bade, Taiwan collateralizing the term loan with CTBC Bank was \$27.3 million. There are no financial covenants associated with the term loan with CTBC Bank at June 30, 2014.

**Contract Manufacturers**

In fiscal year 2014, we paid our contract manufacturers within 61 to 72 days of invoice and Ablecom between 63 to 98 days of invoice. Ablecom, a Taiwan corporation, is one of our major contract manufacturers and a related party. As of June 30, 2014 and 2013 amounts owed to Ablecom by us were approximately \$49.0 million and \$50.4 million, respectively.

**Auction Rate Securities Valuation**

As of June 30, 2014, we held \$2.6 million of auction rate securities, net of unrealized losses, representing our interest in auction rate preferred shares in a closed end mutual fund invested in municipal securities; the auction rate security was rated AAA or AA2 at June 30, 2014. 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 were not saleable in the auction, thereby losing the short-term liquidity previously provided by the auction process. As a result, as of June 30, 2014, \$2.6 million of these auction rate securities have been classified as long-term available-for-sale investments. Based on our assessment of fair value at June 30, 2014, we have recorded an accumulated unrealized loss of \$0.1 million, net of deferred income taxes, on long-term auction rate securities. The unrealized loss was deemed to be temporary and has been recorded as a component of accumulated other comprehensive loss. In fiscal year 2014, there was no auction rate securities redeemed or sold. In fiscal year 2013 and 2012, \$0.3 million and \$2.5 million of auction rate securities were redeemed at par, respectively.

**Contractual Obligations**

The following table describes our contractual obligations as of June 30, 2014:

	Payments Due by Period				Total
	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years	
	(in thousands)				
Operating leases	\$3,265	\$1,259	\$2	\$—	\$4,526
Capital leases, including interest	103	189	96	—	388
Long-term debt, including interest (1)	42,648	3,781	—	—	46,429
Purchase commitments (2)	211,064	26	—	—	211,090
Total (3)	\$257,080	\$5,255	\$98	\$—	\$262,433

(1) Amount reflects total anticipated cash payments, including anticipated interest payments based on the interest rate at June 30, 2014.

(2) Amount reflects total gross purchase commitments under our manufacturing arrangements with third-party contract manufacturers or vendors. Our purchase obligations included \$45.2 million of hard disk drive purchase commitments at June 30, 2014, which will be paid through December 2014. See Note 12 of Notes to our Consolidated Financial Statements in Item 8 of this Form 10-K for a discussion of purchase commitments.

(3) The table above excludes liabilities for deferred revenue for warranty and on-site services of \$6.0 million and unrecognized tax benefits and related interest and penalties accrual of \$9.5 million. We have not provided a detailed estimate of the payment timing of unrecognized tax benefits due to the uncertainty of when the related tax settlements will become due. See Note 11 of Notes to our Consolidated Financial Statements in Item 8 of this Form

10-K for a discussion of income taxes.

We expect to fund our remaining contractual obligations from our ongoing operations and existing cash and cash equivalents on hand.

WEST\249206192.2

37

---



## Table of Contents

### Adoption of New Accounting Pronouncements

In February 2013, the FASB issued authoritative guidance associated with reporting of amounts reclassified out of accumulated other comprehensive income, which requires companies to present significant reclassifications out of accumulated other comprehensive income in their entirety in the statement of operations or in a separate footnote to the financial statements. For amounts that are not required to be reclassified in their entirety to net income, the standard requires companies to cross-reference to related footnoted disclosures. The adoption of this guidance did not have a material impact on our results of operations or financial position.

In March 2013, the FASB issued authoritative guidance associated with a parent company's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. The standard applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. This new accounting pronouncement is effective on a prospective basis for financial statements issued for fiscal years, and interim periods within those years, beginning after December 15, 2013. We are currently reviewing the provisions but do not expect it to have a material impact on our financial statement disclosures, results of operations or financial position.

In July 2013, the FASB issued authoritative guidance associated with the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. It requires a liability related to an unrecognized tax benefit to offset a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if a settlement is required or expected in the event the uncertain tax position is disallowed. We adopted the new disclosure requirement on July 1, 2014. We do not believe the adoption of this guidance will have a material impact on our financial statement disclosure, results of operations or financial position. In May 2014, the FASB issued new accounting guidance related to revenue recognition. This new standard replaces all current U.S. GAAP guidance on revenue, eliminates all industry-specific guidance and provides a unified model in determining when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance can be applied either retrospectively or as a cumulative-effect adjustment as of the date of adoption. The new standard is effective for us on July 1, 2017. We are currently evaluating the effect the guidance will have on our financial statement disclosures, results of operations or financial position.

### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

### Item 7A. Qualitative and Quantitative Disclosure About Market Risk

#### Interest Rate Risk

The primary objectives of our investment activities are to preserve principal, provide liquidity and maximize income without significantly increasing the risk. Some of the securities we invest in are subject to market risk. This means that a change in prevailing interest rates may cause the fair value of the investment to fluctuate. To minimize this risk, we maintain our portfolio of cash equivalents and short-term investments in money market funds and certificates of deposit. Our long-term investments include auction rate securities, which have been classified as long-term due to the lack of a liquid market for these securities. Since our results of operations are not dependent on investments, the risk

associated with fluctuating interest rates is limited to our investment portfolio, and we believe that a 10% change in interest rates would not have a significant impact on our results of operations. As of June 30, 2014, our investments were in money market funds, certificates of deposits and auction rate securities.

We are exposed to changes in interest rates as a result of our borrowings under our term loan and revolving lines of credit. The interest rates for the term loans and the revolving lines of credit ranged from 1.15% to 1.65% at June 30, 2014 and 1.20% to 1.69% at June 30, 2013, respectively. Based on the outstanding principal indebtedness of \$46.3 million under our credit facilities as of June 30, 2014, we believe that a 10% change in interest rates would not have a significant impact on our results of operations.

WEST\249206192.2

38

---

Table of Contents

Liquidity Risk

As of June 30, 2014, we held \$2.6 million of auction rate securities, net of unrealized losses, representing our interest in auction rate preferred shares in a closed end mutual fund invested in municipal securities; the auction rate security was rated AAA or AA2 at June 30, 2014. 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 were not saleable in the auction, thereby losing the short-term liquidity previously provided by the auction process. As a result, as of June 30, 2014, \$2.6 million of these auction rate securities have been classified as long-term available-for-sale investments. Based on our assessment of fair value at June 30, 2014, we have recorded an accumulated unrealized loss of \$0.1 million, net of deferred income taxes, on long-term auction rate securities. The unrealized loss was deemed to be temporary and has been recorded as a component of accumulated other comprehensive loss. During fiscal year 2014, no auction rate securities were redeemed or sold. During fiscal year 2013 and 2012, \$0.3 million and \$2.5 million of auction rate securities were redeemed at par, respectively.

Although we have determined that we will not likely be required to sell the securities before the anticipated recovery and we have the intent and ability to hold our investments until successful auctions occur, these investments are not currently liquid and in the event we need to access these funds, we will not be able to do so without a loss of principal. There can be no assurances that these investments will be settled in the short term or that they will not become other-than-temporarily impaired subsequent to June 30, 2014, as the market for these investments is presently uncertain. In any event, we do not have a present need to access these funds for operational purposes. We will continue to monitor and evaluate these investments as there is no assurance as to when the market for these investments will allow us to liquidate them. We may be required to record impairment charges in periods subsequent to June 30, 2014 in respect to these securities and, if a liquid market does not develop for these investments, we could be required to hold them to market recovery.

Foreign Currency Risk

To date, our international customer and supplier agreements have been denominated primarily in U.S. dollars, and accordingly, we have limited exposure to foreign currency exchange rate fluctuations from customer agreements, and do not currently engage in foreign currency hedging transactions. However, the functional currency of our operations in the Netherlands and Taiwan is the U.S. dollar and our local accounts including financing arrangements are denominated in the local currency in the Netherlands and Taiwan, respectively, and thus we are subject to foreign currency exchange rate fluctuations associated with re-measurement to U.S. dollars. Such fluctuations have not been significant historically. Foreign exchange gain (loss) for fiscal years 2014, 2013 and 2012 was \$(0.4) million, \$(0.1) million and \$(0.5) million, respectively.

Table of Contents

Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	<u>41</u>
<u>Consolidated Balance Sheets</u>	<u>42</u>
<u>Consolidated Statements of Operations</u>	<u>43</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>44</u>
<u>Consolidated Statements of Stockholders' Equity</u>	<u>45</u>
<u>Consolidated Statements of Cash Flows</u>	<u>46</u>
<u>Notes to Consolidated Financial Statements</u>	<u>47</u>

WEST\249206192.2                      40

---

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Super Micro Computer, Inc.  
San Jose, California

We have audited the accompanying consolidated balance sheets of Super Micro Computer, Inc. and subsidiaries (the “Company”) as of June 30, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, stockholders’ equity, and cash flows for each of the three years in the period ended June 30, 2014. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Super Micro Computer, Inc. and subsidiaries as of June 30, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2014, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 9 to the consolidated financial statements, the Company has significant purchases from and sales to a related party.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of June 30, 2014, based on the criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 15, 2014 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ Deloitte & Touche LLP  
San Jose, California  
September 15, 2014

WEST\249206192.2

41

Table of Contents

SUPER MICRO COMPUTER, INC.  
CONSOLIDATED BALANCE SHEETS  
(in thousands, except share amounts)

	June 30, 2014	June 30, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$96,872	\$93,038
Accounts receivable, net of allowances of \$1,922 and \$1,966 at June 30, 2014 and 2013, respectively (including amounts receivable from a related party of \$621 and \$974 at June 30, 2014 and 2013, respectively)	212,738	149,340
Inventory	315,837	254,170
Deferred income taxes-current	16,842	15,786
Prepaid income taxes	5,555	4,039
Prepaid expenses and other current assets	6,237	6,819
Total current assets	654,081	523,192
Long-term investments	2,647	2,637
Property, plant and equipment, net	130,589	95,912
Deferred income taxes-noncurrent	6,154	7,275
Other assets	2,854	3,241
Total assets	\$796,325	\$632,257
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable (including amounts due to a related party of \$48,969 and \$50,448 at June 30, 2014 and 2013, respectively)	\$219,354	\$172,855
Accrued liabilities	37,564	34,122
Income taxes payable	11,414	6,049
Short-term debt and current portion of long-term debt	42,554	28,638
Total current liabilities	310,886	241,664
Long-term debt-net of current portion	3,733	6,533
Other long-term liabilities	12,475	10,336
Total liabilities	327,094	258,533
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock and additional paid-in capital, \$0.001 par value		
Authorized shares: 100,000,000		
Issued shares: 45,739,936 and 42,744,500 at June 30, 2014 and 2013, respectively	199,062	157,712
Treasury stock (at cost), 445,028 shares at June 30, 2014 and 2013	(2,030)	(2,030)
Accumulated other comprehensive loss	(63)	(69)
Retained earnings	272,087	217,930
Total Super Micro Computer, Inc. stockholders' equity	469,056	373,543
Noncontrolling interest	175	181
Total stockholders' equity	469,231	373,724
Total liabilities and stockholders' equity	\$796,325	\$632,257

See accompanying notes to consolidated financial statements.



Table of Contents

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

	Years Ended June 30,		
	2014	2013	2012
Net sales (including related party sales of \$14,576, \$13,805 and \$12,229 in fiscal years 2014, 2013 and 2012, respectively)	\$1,467,202	\$1,162,561	\$1,013,874
Cost of sales (including related party purchases of \$201,848, \$179,735 and \$168,744 in fiscal years 2014, 2013 and 2012, respectively)	1,241,657	1,002,508	848,457
Gross profit	225,545	160,053	165,417
Operating expenses:			
Research and development	84,257	75,208	64,223
Sales and marketing	38,012	33,785	33,308
General and administrative	23,017	23,902	21,872
Total operating expenses	145,286	132,895	119,403
Income from operations	80,259	27,158	46,014
Interest and other income, net	92	48	54
Interest expense	(757	) (610	) (717
Income before income tax provision	79,594	26,596	45,351
Income tax provision	25,437	5,317	15,498
Net income	\$54,157	\$21,279	\$29,853
Net income per common share:			
Basic	\$1.24	\$0.50	\$0.72
Diluted	\$1.16	\$0.48	\$0.67
Weighted-average shares used in calculation of net income per common share:			
Basic	43,599	41,992	40,890
Diluted	46,512	43,907	44,152

See accompanying notes to consolidated financial statements.



Table of Contents

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

	Years Ended June 30,		
	2014	2013	2012
Net income	\$54,157	\$21,279	\$29,853
Other comprehensive income, net of tax:			
Foreign currency translation loss	—	(1	) —
Unrealized gains on investments	6	8	128
Total other comprehensive income	6	7	128
Comprehensive income	\$54,163	\$21,286	\$29,981

See accompanying notes to consolidated financial statements.

WEST\249206192.2

44

---

Table of Contents

SUPER MICRO COMPUTER, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(in thousands, except share amounts)

	Common Stock and Additional Paid-In Capital		Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Non-controlling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at June 30, 2011	40,727,562	\$ 122,693	(445,028)	\$(2,030)	\$ (204 )	\$ 166,798	\$ —	\$ 287,257
Exercise of stock options, net of taxes	1,211,070	8,549	—	—	—	—	—	8,549
Issuance of restricted stock awards	95,784	(1,109 )	—	—	—	—	—	(1,109 )
Stock-based compensation	—	10,252	—	—	—	—	—	10,252
Tax benefit resulting from stock option transactions	—	3,421	—	—	—	—	—	3,421
Unrealized gains on investments	—	—	—	—	128	—	—	128
Net income	—	—	—	—	—	29,853	—	29,853
Balance at June 30, 2012	42,034,416	143,806	(445,028)	(2,030 )	(76 )	196,651	—	338,351
Exercise of stock options	612,034	1,845	—	—	—	—	—	1,845
Issuance of restricted stock awards, net of taxes	98,050	(1,034 )	—	—	—	—	—	(1,034 )
Stock-based compensation	—	11,361	—	—	—	—	—	11,361
Tax benefit resulting from stock option transactions	—	1,734	—	—	—	—	—	1,734
Unrealized gains on investments	—	—	—	—	8	—	—	8
Translation adjustments	—	—	—	—	(1 )	—	—	(1 )
Investment in noncontrolling interest	—	—	—	—	—	—	168	168
Net income	—	—	—	—	—	21,279	13	21,292
Balance at June 30, 2013	42,744,500	157,712	(445,028)	(2,030 )	(69 )	217,930	181	373,724
Exercise of stock options	2,863,878	23,928	—	—	—	—	—	23,928
Issuance of restricted stock awards, net of	131,558	(681 )	—	—	—	—	—	(681 )

Edgar Filing: Super Micro Computer, Inc. - Form 10-K

taxes								
Stock-based compensation	—	11,062	—	—	—	—	—	11,062
Tax benefit resulting from stock option transactions	—	7,041	—	—	—	—	—	7,041
Unrealized gains on investments	—	—	—	—	6	—	—	6
Net income	—	—	—	—	—	54,157	(6 )	54,151
Balance at June 30, 2014	45,739,936	\$ 199,062	(445,028)	\$(2,030)	\$( 63 )	\$ 272,087	\$ 175	\$ 469,231

See accompanying notes to consolidated financial statements.

WEST\249206192.2 45

Table of Contents

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

	Years Ended June 30,		
	2014	2013	2012
<b>OPERATING ACTIVITIES:</b>			
Net income	\$54,157	\$21,279	\$29,853
Reconciliation of net income to net cash provided by operating activities:			
Depreciation and amortization	6,364	7,835	7,071
Stock-based compensation expense	11,062	11,361	10,252
Excess tax benefits from stock-based compensation	(2,992)	(865)	(2,047)
Allowance for doubtful accounts	1,476	929	217
Provision for inventory	2,254	9,725	8,579
Exchange gain	(96)	(153)	—
Deferred income taxes	65	(7,010)	(3,137)
Changes in operating assets and liabilities:			
Accounts receivable, net (including changes in related party balances of \$353, \$62 and \$(509) in fiscal years 2014, 2013, 2012, respectively)	(64,874)	(48,255)	(17,226)
Inventory	(63,921)	12,704	(92,467)
Prepaid expenses and other assets	618	(67)	(1,656)
Accounts payable (including changes in related party balances of \$(1,479), \$(1,022) and \$17,260 in fiscal years 2014, 2013 and 2012, respectively)	46,298	(2,208)	61,336
Income taxes payable, net	10,880	4,490	8,968
Accrued liabilities	3,293	4,384	4,967
Other long-term liabilities	1,954	(566)	1,757
Net cash provided by operating activities	6,538	13,583	16,467
<b>INVESTING ACTIVITIES:</b>			
Restricted cash	406	(412)	(32)
Proceeds from investments	—	300	2,475
Purchases of property, plant and equipment	(40,567)	(5,001)	(24,862)
Investment in a privately held company	—	—	(168)
Land deposit refund	—	—	2,868
Net cash used in investing activities	(40,161)	(5,113)	(19,719)
<b>FINANCING ACTIVITIES:</b>			
Proceeds from exercise of stock options	23,928	1,845	8,549
Minimum tax withholding paid on behalf of an officer for restricted stock awards	(681)	(1,034)	(1,109)
Excess tax benefits from stock-based compensation	2,992	865	2,047
Proceeds from debt	17,354	20,641	33,696
Repayment of debt	(6,320)	(18,073)	(28,949)
Payment of obligations under capital leases	(47)	(40)	(35)
Contributions from noncontrolling interests	—	168	—
Payments under receivable financing arrangements	(4)	(610)	(382)
Net cash provided by financing activities	37,222	3,762	13,817
Effect of exchange rate fluctuations on cash	235	(20)	318
Net increase in cash and cash equivalents	3,834	12,212	10,883
Cash and cash equivalents at beginning of year	93,038	80,826	69,943
Cash and cash equivalents at end of year	\$96,872	\$93,038	\$80,826

Edgar Filing: Super Micro Computer, Inc. - Form 10-K

Supplemental disclosure of cash flow information:

Cash paid for interest	\$757	\$718	\$621
Cash paid for taxes, net of refunds	\$13,096	\$8,074	\$8,455
Non-cash investing and financing activities:			
Equipment purchased under capital leases	\$283	\$85	\$7
Accrued costs for property, plant and equipment purchases	\$2,021	\$1,871	\$797
Deposit applied to property acquisition	\$—	\$—	\$5,867

See accompanying notes to consolidated financial statements.

WEST\249206192.2

46

Table of Contents

SUPER MICRO COMPUTER, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, Taiwan, China and Japan.

Basis of Presentation

The consolidated financial statements reflect the consolidated balance sheets, results of operations 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 Company consolidates its investment in Super Micro Business Park, Inc. as it is variable interest entity and the Company is the primary beneficiary. The noncontrolling interest is presented as a separate component from the Company's equity in the equity section of the Consolidated Balance Sheets. Net income attributable to the noncontrolling interest is not presented separately in the Consolidated Statements of Operations and is included in the general and administrative expenses as the amount is not material for any of the fiscal periods presented.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Such estimates include, but are not limited to: allowances for doubtful accounts and sales returns, cooperative marketing accruals, inventory valuation, product warranty accruals, stock-based compensation, impairment of short-term and long-term investments and income taxes. Actual results could differ from those estimates.

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 debt is 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.

#### Cash and Cash Equivalents

The Company considers all highly liquid instruments with an original maturity of three months or less from the date of purchase to be cash equivalents. Cash equivalents consist primarily of money market funds and certificates of deposits with maturities of less than three months.

WEST\249206192.2

47

---

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## Long-term Investments

The Company classifies its long-term investments in auction-rate securities ("auction rate securities") as long-term available-for-sale investments. Auction rate securities consist of municipal securities. The discounted cash flow model is used to estimate the fair value of the auction rate securities. These investments are recorded in the Consolidated Balance Sheets at fair value. Unrealized gains and losses on these investments are included as a component of accumulated other comprehensive income, net of tax.

## Inventory

Inventory is valued at the lower of cost or market. Inventory consists of raw materials (principally components), work in process (principally products being assembled) and finished goods. Market value represents net realizable value for finished goods and work in process and replacement value of raw materials and parts. The Company evaluates inventory on a quarterly basis for lower of cost or market and excess and obsolescence and, as necessary, writes 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 as well as historical usage and sales activity. This evaluation takes into account matters including expected demand, historical usage and sales, anticipated sales price, product obsolescence and other factors. If actual future demand for the Company's 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. The Company monitors the extent to which previously written down inventory is sold at amounts greater or less than carrying value, and based on this analysis, adjusts its estimate for determining future write downs. If in future periods, the Company experiences or anticipates a change in recovery rate compared with its historical experience, its gross margin would be affected. During fiscal years 2014, 2013 and 2012, the Company recorded a provision for lower of cost or market and excess and obsolete inventory totaling \$2,254,000, \$9,725,000 and \$8,579,000, respectively.

## Property, Plant and Equipment

Property, plant and equipment is recorded at cost and depreciated using the straight-line method over the estimated useful lives of the related assets as follows:

Machinery and equipment	3 to 7 years
Furniture and fixtures	5 years
Software	3 to 5 years
Buildings	39 years
Building improvements	20 years
Land improvements	15 years
Leasehold improvements	shorter of lease term or estimated useful life

For assets acquired and financed under capital leases, the present value of the future minimum lease payments is recorded at the date of acquisition as property and equipment with the corresponding amount recorded as a capital lease obligation, and the amortization is computed on a straight-line basis over the shorter of lease term or estimated useful life.



Other Assets

As of June 30, 2014, other assets consist primarily of a long-term prepaid royalty license of \$1,246,000, an investment in a privately held company of \$750,000 and restricted cash of \$450,000. As of June 30, 2013, other assets consist primarily of a long-term prepaid royalty license of \$1,496,000, an investment in a privately held company of \$750,000 and restricted cash of \$847,000. Restricted cash consists primarily of certificates of deposits pledged as security for one irrevocable letter of credit required in connection with a warehouse lease in Fremont, California and bank guarantees in connection with office leases in the Netherlands.

WEST\249206192.2

48

---

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Long-Lived Assets

The Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount, an impairment loss would be measured based on the fair value of the asset compared to the carrying amount. No impairment charge has been recorded in any of the periods presented.

Revenue Recognition

The Company recognizes 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. The Company's standard arrangement with its 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, for which revenue is recognized when the products arrive at the destination. The Company generally does 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, the Company regularly reviews its history of actual returns for each major product line. The Company also communicates 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 distributors

In addition, certain customers have acceptance provisions and revenue is deferred until the customers provide the necessary acceptance. At June 30, 2014 and 2013, the Company had deferred revenue of \$7,665,000 and \$1,019,000 and related deferred product costs of \$6,674,000 and \$711,000, respectively, related to shipments to customers pending acceptance.

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. The Company also makes estimates of the uncollectibility of accounts receivable, 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, the Company evaluates aged items in the accounts receivable aging report and provides an allowance in an amount the Company deems adequate for doubtful accounts. Our provision for bad debt was \$1,476,000, \$929,000 and \$217,000 in fiscal years 2014, 2013 and 2012, respectively. If a major customer's creditworthiness deteriorates, if actual defaults are higher than the Company's historical experience, or if other circumstances arise, the Company's estimates of the recoverability of amounts due to the Company could be overstated, and additional allowances could be required, which could have an adverse impact on its reported operating expenses. The Company provides for price protection to certain distributors. The Company assesses the market competition and product technology obsolescence, and makes price adjustments based on its judgment. Upon each announcement of price

reductions, the accrual for price protection is calculated based on the distributors' inventory on hand. Such reserves are recorded as a reduction to revenue at the time the Company reduces the product prices.

The Company has an immaterial amount of service revenue relating to on-site service and non-warranty repairs. Revenue for on-site service is recognized over the contracted service period, and revenue for non-warranty repair service 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.

#### Cost of Sales

Cost of sales primarily consists of the costs of materials, contract manufacturing, in-bound shipping, personnel and related expenses, equipment and facility expenses, warranty costs and provision for lower of cost or market and excess and obsolete inventory.

WEST\249206192.2

49

---

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## Product Warranties

The Company offers product warranties ranging from 15 to 39 months against any defective products. The Company accrues for estimated returns of defective products at the time revenue is recognized based on historical warranty experience and recent trends. The Company monitors warranty obligations and may make revisions to its 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 Company's estimates and assumptions used have been historically close to actual. If in future periods the Company experiences or anticipates an increase or decrease in warranty claims as a result of new product introductions or changes in unit volumes compared with its historical experience, or if the cost of servicing warranty claims is greater or lesser than expected, the Company intends to adjust its estimates appropriately. The following table presents for the years ended June 30, 2014, 2013 and 2012, the reconciliation of the changes in accrued warranty costs which is included as a component of accrued liabilities (in thousands):

	June 30,		
	2014	2013	2012
Balance, beginning of year	\$6,472	\$5,522	\$4,710
Provision for warranty	14,175	13,438	12,226
Costs charged to accrual	(13,950)	(12,487)	(12,127)
Change in estimated liability for pre-existing warranties	386	(1)	713
Balance, end of year	\$7,083	\$6,472	\$5,522

## Software Development Costs

Software development costs are included in research and development and are expensed as incurred. Software development costs are capitalized beginning when technological feasibility has been established and ending when a product is available for general release to customers. To date, the period between achieving technological feasibility and the issuance of such software has been short and software development costs qualifying for capitalization have been insignificant.

## Research and Development

Research and development costs are expensed as incurred and consist primarily of salaries, consulting services, other direct expenses and other engineering expenses. The Company occasionally receives funding from certain suppliers and customers towards its development efforts. Such amounts are recorded as a reduction of research and development expenses and were \$3,132,000, \$2,112,000 and \$2,866,000 for the years ended June 30, 2014, 2013 and 2012, respectively.

## Cooperative Marketing Arrangements

The Company has arrangements with resellers of its products to reimburse the resellers for cooperative marketing costs meeting specified criteria. The Company accrues the cooperative marketing costs based on these arrangements and its estimate for resellers' claims for marketing activities. The Company records marketing costs meeting such specified criteria within sales and marketing expenses in the consolidated statements of operations. For those marketing costs that do not meet the specified criteria, the amounts are recorded as a reduction to sales in the consolidated statements of operations.

Total cooperative marketing costs charged to sales and marketing expenses for the years ended June 30, 2014, 2013 and 2012, were \$2,058,000, \$1,550,000 and \$2,529,000, respectively. Total amounts recorded as reductions to sales for the years ended June 30, 2014, 2013 and 2012, were \$2,829,000, \$2,610,000 and \$2,416,000, respectively.

#### Advertising Costs

Advertising costs are expensed as incurred. Total advertising and promotional expenses, including cooperative marketing payments, were \$5,183,000, \$4,085,000 and \$4,382,000 for the years ended June 30, 2014, 2013 and 2012, respectively.

WEST\249206192.2

50

---

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Stock-Based Compensation

The Company measures and recognizes 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. The Company is required to estimate the fair value of share-based awards on the date of grant. The Company has estimated the fair value of stock options and restricted stock awards as of the date of grant using the Black-Scholes option pricing model. The Black-Scholes model considers, among other factors, the expected life of the award, the expected volatility of the Company's stock price and the expected dividend yield. The value of awards that are ultimately expected to vest is recognized as an expense over the requisite service periods. Because share-based compensation expense is based on awards ultimately expected to vest, it has been reduced for forfeitures.

Shipping and Handling Fees

The Company incurred shipping costs of \$1,605,000, \$1,475,000 and \$1,776,000 for the years ended June 30, 2014, 2013 and 2012, respectively, that were included in sales and marketing expenses.

Income Taxes

The Company accounts 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 for income tax reporting purposes, net operating loss carryforwards 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.

The Company recognizes a 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 the Company to determine the probability of various possible outcomes. The Company evaluates 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 the Company later determines that its exposure is lower or that the liability is not sufficient to cover its revised expectations, the Company adjusts the liability and effects a related change in its tax provision during the period in which the Company makes such determination.

Foreign Currency Translation

The functional currency of the Company's international subsidiaries is the U.S. dollar. Assets and liabilities of the Company's international subsidiaries that are denominated in the local currency are remeasured into U.S. dollars at period-end exchange rates and revenue and expenses that are denominated in the local currency are remeasured into U.S. dollars at the average exchange rates during the period. Accordingly, remeasurement of foreign currency accounts and foreign exchange transaction gains and losses, which have not been material, are reflected in the consolidated statements of operations.

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 is 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.

WEST\249206192.2

51

---

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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):

	Years Ended June 30,		
	2014	2013	2012
Basic net income per common share calculation			
Net income	\$54,157	\$21,279	\$29,853
Less: Undistributed earnings allocated to participating securities	(36 )	(106 )	(280 )
Net income attributable to common shares—basic	\$54,121	\$21,173	\$29,573
Weighted-average number of common shares used to compute basic net income per common share	43,599	41,992	40,890
Basic net income per common share	\$1.24	\$0.50	\$0.72
Diluted net income per common share calculation			
Net income	\$54,157	\$21,279	\$29,853
Less: Undistributed earnings allocated to participating securities	(34 )	(101 )	(260 )
Net income attributable to common shares—diluted	\$54,123	\$21,178	\$29,593
Weighted-average number of common shares used to compute basic net income per common share	43,599	41,992	40,890
Dilutive effect of options to purchase common stock	2,913	1,915	3,262
Weighted-average number of common shares used to compute diluted net income per common share	46,512	43,907	44,152
Diluted net income per common share	\$1.16	\$0.48	\$0.67

For the years ended June 30, 2014, 2013 and 2012, 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 3,465,000, 6,241,000 and 3,252,000 for the years ended June 30, 2014, 2013 and 2012, respectively.

#### Certain Significant Risks and Uncertainties

The Company operates in the high technology industry and is subject to a number of risks, some of which are beyond the Company's control, that could have a material adverse effect on the Company's business, operating results, and financial condition. These risks include variability and uncertainty of revenues and operating results; product obsolescence; geographic concentration; international operations; dependence on key personnel; competition; intellectual property claims and litigation; management of growth; and limited sources of supply.

#### Concentration of Supplier Risk

Certain raw materials used by the Company in the manufacture of its products are available from a limited number of suppliers. Shortages could occur in these essential materials due to an interruption of supply or increased demand in the industry. One supplier accounted for 23.4%, 21.9%, and 21.7% of total purchases for the years ended June 30, 2014, 2013 and 2012, respectively. Ablecom Technology, Inc., a related party of the Company as noted in Note 9, accounted for 16.1%, 18.9% and 19.5% of total purchases for the years ended June 30, 2014, 2013 and 2012, respectively.



Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentration of credit risk consist primarily of cash and cash equivalents and long-term investments and accounts receivable. No single customer accounted for 10% or more of net sales in fiscal years 2014, 2013 and 2012. No customer accounted for 10% or more of accounts receivable as of June 30, 2014. One customer accounted for 14.4% of accounts receivable as of June 30, 2013.

WEST\249206192.2

52

---

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Adoption of New Accounting Pronouncements

In February 2013, the FASB issued authoritative guidance associated with reporting of amounts reclassified out of accumulated other comprehensive income, which requires companies to present significant reclassifications out of accumulated other comprehensive income in their entirety in the statement of operations or in a separate footnote to the financial statements. For amounts that are not required to be reclassified in their entirety to net income, the standard requires companies to cross-reference to related footnoted disclosures. The adoption of this guidance did not have a material impact on the Company's financial statement disclosure, results of operations or financial position.

In March 2013, the FASB issued authoritative guidance associated with a parent company's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. The standard applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. This new accounting pronouncement is effective on a prospective basis for financial statements issued for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company is currently reviewing the provisions but does not expect it to have a material impact on the Company's financial statement disclosures, results of operations or financial position.

In July 2013, the FASB issued authoritative guidance associated with the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. It requires a liability related to an unrecognized tax benefit to offset a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if a settlement is required or expected in the event the uncertain tax position is disallowed. The Company currently plans to adopt the new disclosure effective on July 1, 2014. The Company does not believe the adoption of this guidance will have a material impact on the Company's financial statement disclosures, results of operations or financial position.

In May 2014, the FASB issued new accounting guidance related to revenue recognition. This new standard replaces all current U.S. GAAP guidance on revenue, eliminates all industry-specific guidance and provides a unified model in determining when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance can be applied either retrospectively or as a cumulative-effect adjustment as of the date of adoption. The new standard is effective for the Company on July 1, 2017. The Company is currently evaluating the effect the guidance will have on the Company's financial statement disclosures, results of operations or financial position.

Note 2. 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 did not have observable inputs for its auction rate securities as of June 30, 2014 and 2013. Refer to Note 1 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.



Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table sets forth the Company's cash equivalents and long-term investments as of June 30, 2014 and 2013 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):

June 30, 2014	Level 1	Level 2	Level 3	Asset at Fair Value
Money market funds	\$311	\$—	\$—	\$311
Auction rate securities	—	—	2,647	2,647
Total	\$311	\$—	\$2,647	\$2,958
June 30, 2013	Level 1	Level 2	Level 3	Asset at Fair Value
Money market funds	\$310	\$—	\$—	\$310
Auction rate securities	—	—	2,637	2,637
Total	\$310	\$—	\$2,637	\$2,947

The above table excludes \$96,324,000 and \$92,495,000 of cash and \$746,000 and \$1,139,000 of certificates of deposit held by the Company as of June 30, 2014 and 2013, respectively. There were no transfers between Level 1, Level 2 or Level 3 securities in fiscal year 2014 and 2013.

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 fiscal year 2014 and 2013 (in thousands):

	June 30, 2014	2013
Balance as of beginning of year	\$2,637	\$2,923
Total realized gains or (losses) included in net income	—	—
Total unrealized gains or (losses) included in other comprehensive income	10	14
Sales and settlements at par	—	(300)
Transfers in and/or out of Level 3	—	—
Balance as of end of year	\$2,647	\$2,637

The following is a summary of the Company's long-term investments as of June 30, 2014 and 2013 (in thousands):

	June 30, 2014			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Auction rate securities	\$2,750	\$—	\$(103)	\$2,647
	June 30, 2013			
	Amortized Cost	Gross Unrealized	Gross Unrealized	Fair Value

Edgar Filing: Super Micro Computer, Inc. - Form 10-K

		Holding Gains	Holding Losses	
Auction rate securities	\$2,750	\$—	\$(113	) \$2,637

The Company measures the fair value of outstanding debt for disclosure purposes on a recurring basis. As of June 30, 2014 and 2013, short-term and long-term debt of \$46,287,000 and \$35,171,000, respectively, are reported at amortized cost. This outstanding debt is classified as Level 2 as they are not actively traded and are valued using a discounted cash flow model

WEST\249206192.2

54

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

that uses observable market inputs. Based on the discounted cash flow model, the fair value of the outstanding debt approximates amortized cost.

## Note 3. Accounts Receivable Allowances

The Company has established an allowance for doubtful accounts and an allowance for sales returns. The allowance for doubtful accounts is based upon the credit risk of specific customers, historical trends related to past losses and other relevant factors. The Company also provides its customers with product return rights. A provision for such returns is provided for in the same period that the related sales are recorded based upon contractual return rights and historical trends. Accounts receivable allowances as of June 30, 2014, 2013 and 2012, consisted of the following (in thousands):

	Beginning Balance	Charged to Cost and Expenses	Deductions	Ending Balance
Allowance for doubtful accounts:				
Year ended June 30, 2014	\$1,562	\$1,476	\$(1,564)	) \$1,474
Year ended June 30, 2013	777	929	(144)	) 1,562
Year ended June 30, 2012	738	217	(178)	) 777
Allowance for sales returns				
Year ended June 30, 2014	\$404	\$8,985	\$(8,941)	) \$448
Year ended June 30, 2013	329	7,463	(7,388)	) 404
Year ended June 30, 2012	324	6,997	(6,992)	) 329

## Note 4. Inventory

Inventory as of June 30, 2014 and 2013 consisted of the following (in thousands):

	June 30, 2014	2013
Finished goods	\$246,803	\$185,459
Work in process	18,794	10,440
Purchased parts and raw materials	50,240	58,271
Total inventory	\$315,837	\$254,170

## Note 5. Long-term Investments

As of June 30, 2014 and 2013, the Company held \$2,647,000 and \$2,637,000, 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 June 30, 2014 and June 30, 2013. 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 saleable in the auction, thereby losing the short-term liquidity previously provided by the auction process. As a result, as of June 30, 2014 and 2013, \$2,647,000 and \$2,637,000 of these

auction rate securities have been classified as long-term available-for-sale investments, respectively.

The Company has used a discounted cash flow model to estimate the fair value of the auction rate securities as of June 30, 2014 and 2013. 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 June 30, 2014, the discount rate, the time period until redemption and the estimated rate of return were 1.56%, 3 years and 0.28%, 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

WEST\249206192.2

55

---

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 \$10,000 and \$14,000 during the year ended June 30, 2014 and 2013, respectively. There was a cumulative total decline of \$103,000 and \$113,000 as of June 30, 2014 and 2013, respectively. That amount has been recorded as a component of other comprehensive income. As of June 30, 2014 and 2013, the Company has recorded an accumulated unrealized loss of \$62,000 and \$68,000, 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. In fiscal year 2014, there was no auction rate securities redeemed or sold. In fiscal year 2013 and 2012, \$300,000 and \$2,475,000 of auction rate securities were redeemed at par, respectively.

## Note 6. Property, Plant, and Equipment

Property, plant and equipment as of June 30, 2014 and 2013 consisted of the following (in thousands):

	June 30,	
	2014	2013
Land	\$63,962	\$41,774
Buildings	51,959	43,979
Building and leasehold improvements	7,683	7,483
Buildings construction in progress (1)	587	—
Machinery and equipment	34,342	26,941
Furniture and fixtures	5,892	4,731
Purchased software	3,606	5,380
Purchased software construction in progress (2)	2,548	—
	170,579	130,288
Accumulated depreciation and amortization	(39,990 )	(34,376 )
Property, plant and equipment, net	\$130,589	\$95,912

(1) On October 31, 2013, the Company completed the purchase of real property for \$30,158,000. The property consists of approximately 324,000 square feet of building space on 36 acres of land. The purchase values allocated to the land and building were \$22,178,000 and \$7,980,000 respectively. In connection with the purchase of the property located in San Jose, California, the Company also engaged several contractors for the development and construction



of improvements on the property, which is still in progress.

(2) In May 2014, the Company began its implementation of a new enterprise resource planning, or ERP, system and capitalized the costs of the new ERP software and certain expenses associated directly with the development of the ERP system, which is still in progress.

WEST\249206192.2

56

---

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## Note 7. Accrued Liabilities

Accrued liabilities as of June 30, 2014 and 2013 consisted of the following (in thousands):

	June 30, 2014	2013
Accrued payroll and related expenses	\$11,624	\$12,084
Customer deposits	4,185	4,134
Accrued warranty costs	7,083	6,472
Accrued cooperative marketing expenses	4,387	4,016
Others	10,285	7,416
Total accrued liabilities	\$37,564	\$34,122

## Note 8. Short-term and Long-term Obligations

Short-term and long-term obligations as of June 30, 2014 and 2013 consisted of the following (in thousands):

	June 30, 2014	2013
Line of credit:		
Bank of America	\$17,699	\$10,899
Total line of credit	17,699	10,899
Building term loans:		
Bank of America	6,533	9,333
CTBC Bank	22,055	14,939
Total building term loans	28,588	24,272
Total debt	46,287	35,171
Current portion	(42,554	) (28,638
Long-term portion	\$3,733	\$6,533

## Activities under Revolving Lines of Credit and Term Loans

## Bank of America

In October 2011, the Company entered into an amendment to the existing credit agreement with Bank of America N.A. ("Bank of America") which provided for (i) a \$40,000,000 revolving line of credit facility that matured on June 15, 2013 and (ii) a five-year \$14,000,000 term loan facility. The term loan is secured by the three buildings located in San Jose, California 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. The credit agreement was subsequently amended to extend the maturity date of the revolving line of credit facility to November 15, 2014. The Company is currently negotiating with Bank of America to renew the revolving line of credit.

The line of credit facility provides for borrowings denominated both in U.S. dollars and in Taiwanese dollars. 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 0.15% at June 30, 2014. For borrowings denominated in Taiwanese dollars,

the interest rate is equal to the lender's established interest rate which is adjusted monthly.

As of June 30, 2014 and 2013, the total outstanding borrowings under the Bank of America term loan was \$6,533,000 and \$9,333,000, respectively. The total outstanding borrowings under the Bank of America line of credit was \$17,699,000 and \$10,899,000 as of June 30, 2014 and 2013, respectively. The interest rates for these loans ranged from

WEST\249206192.2

57

---

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

1.19% to 1.65% per annum at June 30, 2014 and from 1.23% to 1.69% per annum at June 30, 2013, respectively. As of June 30, 2014, the unused revolving line of credit with Bank of America was \$22,301,000.

CTBC Bank

In October 2011, the Company obtained an unsecured revolving line of credit from CTBC Bank Co., Ltd ("CTBC Bank", formerly, China Trust Bank) totaling NT\$300,000,000 Taiwanese dollars or \$9,898,000 U.S. dollars equivalents. In July 2012, the Company increased the credit facility to NT\$450,000,000 Taiwanese dollars or \$14,912,000 U.S. dollars equivalents. The term loan was secured by the land and building located in Bade, Taiwan with an interest rate equal to the lender's established interest rate plus 0.30% which is adjusted monthly.

In November 2013, the Company entered into an amendment to the existing credit agreement with CTBC Bank to increase the credit facility amount and extend the maturity date to November 30, 2014. The amendment provides for (i) a 13-month NT\$700,000,000 or \$23,787,000 U.S. dollar equivalents term loan secured by the land and building located in Bade, Taiwan with an interest rate equal to the lender's established NTD interest rate plus 0.25% per annum which is adjusted monthly and (ii) a 13-month unsecured term loan up to NT\$100,000,000 or \$3,398,000 U.S. dollar equivalents, and a 13-month revolving line of credit up to 80% of eligible accounts receivable in an aggregate amount of up to NT\$500,000,000 or \$16,991,000 U.S. dollar equivalents with an interest rate equal to the lender's established NTD interest rate plus 0.25% per annum or lender's established USD interest rate plus 0.30% per annum which is adjusted monthly. The total borrowings allowed under the credit agreement is capped at NT\$1,000,000,000 or \$33,981,000 U.S. dollar equivalents.

The total outstanding borrowings under the CTBC Bank term loan was denominated in Taiwanese dollars and was translated into U.S. dollars of \$22,055,000 and \$14,939,000 at June 30, 2014 and 2013, respectively. There were no outstanding borrowings under the CTBC Bank revolving line of credit at June 30, 2014 and 2013, respectively. The interest rate for the loan was at 1.15% and 1.20% per annum at June 30, 2014 and 2013, respectively. At June 30, 2014, NT\$340,000,000 or \$11,361,000 U.S. dollar equivalents were available for future borrowing under this credit agreement.

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, measured as of the last day of each fiscal quarter and the last day of each fiscal year.

As of June 30, 2014 and 2013, the total assets of \$751,396,000 and \$586,742,000, respectively collateralized the line of credit with Bank of America and were all of the assets of the Company except for the three buildings purchased in San Jose, California in June 2010 and the land and building located in Bade, Taiwan, As of June 30, 2014 and 2013,

Edgar Filing: Super Micro Computer, Inc. - Form 10-K

total assets collateralizing the term loan with Bank of America were \$17,584,000 and \$17,813,000. As of June 30, 2014, the Company was in compliance with all financial covenants associated with the credit agreement with Bank of America.

As of June 30, 2014 and 2013, the land and building located in Bade, Taiwan collateralizing the term loan with CTBC Bank was \$27,345,000 and \$27,702,000, respectively. There are no financial covenants associated with the term loan with China Trust Bank at June 30, 2014.

WEST\249206192.2

58

---

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## Debt Maturities

The following table as of June 30, 2014, summarizes future minimum principal payments on the Company's debts excluding capital leases (in thousands):

Fiscal Years Ending June 30,	
2015	\$42,554
2016	2,800
2017	933
2018	—
2019	—
Thereafter	—
Total	\$46,287

## 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. Ablecom 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 June 30, 2014.

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 Ablecom's 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. For fiscal year 2014, 2013 and 2012, the Company purchased products from Ablecom totaling \$201,848,000, \$179,735,000 and \$168,744,000, respectively. For fiscal year 2014, 2013 and 2012, the Company sold products to Ablecom totaling \$14,576,000, \$13,805,000 and \$12,229,000, respectively.

Amounts owed to the Company by Ablecom as of June 30, 2014 and 2013, were \$621,000 and \$974,000, respectively. Amounts owed to Ablecom by the Company as of June 30, 2014 and 2013, were \$48,969,000 and \$50,448,000, respectively. In fiscal year 2014, the Company paid Ablecom the majority of invoiced dollars between

63 and 98 days of invoice date. For the years ended June 30, 2014, 2013 and 2012, the Company paid \$6,906,000, \$5,076,000 and \$5,042,000, 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 \$64,464,000 and \$53,684,000 at June 30, 2014

WEST\249206192.2

59

---

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

and 2013, 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 own 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. The accounts of the Management Company are 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. The Management Company had no business operations as of June 30, 2012. In fiscal year 2014 and 2013, \$(6,000) and \$13,000 of net income (loss) attributable to Ablecom's interest was included in the Company's general and administrative expenses in the consolidated statements of operations.

Note 10. 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) 3.0% 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. The 2006 Plan is the successor equity incentive plan to the Company's 1998 Stock Option Plan. As of June 30, 2014, the Company had 341,617 authorized shares available for future issuance under the 2006 plan.

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 is no incremental fair value of the option exchanged for the award. 898,205 and 718,564 shares were vested as of June 30, 2014 and 2013, respectively.



In November 2008, the Committee approved the terms of an Option Exercise Agreement with Chiu-Chu Liang, a director and Vice President of Operations & Treasurer of the Company and Shioh-Meei Liaw, Senior Warehouse Manager of the Company, pursuant to which they exercised fully vested options previously granted to them for the purchase of 185,263 and 92,631 shares, respectively. They exercised the options using a “net-exercise” procedure in which they were 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 (182,611 and 91,305 shares, respectively, based upon the market value as of the date of exercise). The shares issued upon exercise of the options are subject to vesting over two years. Vesting of the shares subject to the awards may accelerate in certain circumstances pursuant to the terms of the applicable Option Exercise Agreement. The Company determined that there is no incremental fair value of the option exchanged for the awards. The awards were fully vested as of June 30, 2012.

WEST\249206192.2

60

---

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## 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 Company's implied and 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 years ended June 30, 2014, 2013 and 2012 was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Years Ended June 30,				
	2014	2013	2012		
Risk-free interest rate	1.53% - 1.90%	0.65% - 0.90%	0.83% - 1.32%		
Expected life	5.49 - 5.58 years	5.03 - 5.15 years	5.01 - 5.04 years		
Dividend yield	—	% —	% —	%	%
Volatility	43.48% - 50.07%	51.27% - 51.76%	45.62% - 53.72%		
Weighted-average fair value	\$7.23	\$4.53	\$7.15		

The following table shows total stock-based compensation expense included in the consolidated statements of operations for the years ended June 30, 2014, 2013 and 2012 (in thousands):

	Years Ended June 30,		
	2014	2013	2012
Cost of sales	\$941	\$953	\$783
Research and development	6,783	6,527	5,542
Sales and marketing	1,260	1,541	1,469
General and administrative	2,078	2,340	2,458
Stock-based compensation expense before taxes	11,062	11,361	10,252
Income tax impact	(2,426)	(548)	(1,582)

Edgar Filing: Super Micro Computer, Inc. - Form 10-K

Stock-based compensation expense, net	\$8,636	\$10,813	\$8,670
---------------------------------------	---------	----------	---------

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 \$7,041,000, \$1,734,000 and \$3,421,000 of excess tax benefits accounted in the Company's additional paid-in capital in the year ended June 30, 2014, 2013 and 2012, respectively. The Company had excess tax benefits that are classified as cash from financing activities of \$2,992,000, \$865,000 and \$2,047,000 in the year

WEST\249206192.2

61

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ended June 30, 2014, 2013 and 2012, 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 years ended June 30, 2014, 2013 and 2012 under all stock option plans:

	Options Outstanding	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value (in thousands)
Balance as of June 30, 2011 (6,617,414 shares exercisable at weighted average exercise price of \$7.18 per share)	10,480,785	\$8.86		
Granted (weighted average fair value of \$7.15)	2,381,700	15.89		
Exercised	(1,211,070 )	7.06		
Forfeited	(349,187 )	14.60		
Balance as of June 30, 2012 (7,410,152 shares exercisable at weighted average exercise price of \$8.25 per share)	11,302,228	10.36		
Granted (weighted average fair value of \$4.53)	1,952,270	11.83		
Exercised	(612,034 )	3.01		
Forfeited	(436,286 )	14.01		
Balance as of June 30, 2013 (8,731,818 shares exercisable at weighted average exercise price of \$9.66 per share)	12,206,178	10.83		
Granted (weighted average fair value of \$7.23)	1,808,006	15.87		
Exercised	(2,863,878 )	8.36		
Forfeited	(244,704 )	14.25		
Balance as of June 30, 2014	10,905,602	\$12.24	6.28	\$142,053
Options vested and expected to vest at June 30, 2014	10,633,458	\$12.16	6.20	\$139,430
Options vested and exercisable at June 30, 2014	7,558,631	\$11.05	5.21	\$107,481

The total pretax intrinsic value of options exercised during the years ended June 30, 2014, 2013 and 2012 was \$30,165,000, \$4,614,000 and \$11,589,000, respectively. As of June 30, 2014, 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 \$19,236,000, which will be recognized over a weighted-average vesting period of approximately 2.4 years.



Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Additional information regarding options outstanding as of June 30, 2014, is as follows:

Range of Exercise Prices	Options Outstanding			Options Vested and Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Term (Years)	Weighted-Average Exercise Price Per Share	Number Exercisable	Weighted-Average Exercise Price Per Share
\$2.60 - 6.14	1,373,230	3.37	\$4.87	1,373,230	\$4.87
6.21 - 8.36	1,149,959	4.08	7.97	1,149,959	7.97
8.47 - 10.35	1,355,173	6.76	9.62	761,809	9.55
10.66 - 11.76	1,259,691	6.02	10.92	1,025,009	10.74
11.81 - 13.61	1,313,886	6.73	12.70	1,037,201	12.72
13.67 - 14.23	1,333,831	6.53	13.98	677,016	13.81
15.22 - 17.29	1,369,860	7.54	16.41	839,991	16.31
17.69 - 18.93	1,496,712	8.24	18.58	607,694	18.67
20.70	231,260	8.56	20.70	86,722	20.70
21.86	22,000	9.62	21.86	—	—
\$2.60 - \$21.86	10,905,602	6.28	\$12.24	7,558,631	\$11.05

## Restricted Stock Award Activity

The following table summarizes the Company's restricted stock award activity for the year ended June 30, 2014, 2013 and 2012:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Nonvested stock at June 30, 2011	538,923	\$10.66
Granted	3,500	17.29
Vested	(179,641 )	10.66
Forfeited	—	—
Nonvested stock at June 30, 2012	362,782	10.72
Granted	—	—
Vested	(183,141 )	10.79
Forfeited	—	—
Nonvested stock at June 30, 2013	179,641	10.66
Granted	3,500	14.23
Vested	(183,141 )	10.73
Forfeited	—	—
Nonvested stock at June 30, 2014	—	\$—

The total pretax intrinsic value of restricted stock awards vested was \$1,965,000, \$2,225,000 and \$2,375,000 for the years ended June 30, 2014, 2013 and 2012, respectively. In fiscal year 2014, 2013 and 2012, upon vesting, 183,141, 183,141 and 179,641 shares of restricted stock awards were partially net share-settled such that the Company withheld 51,583, 85,091 and 83,857 shares, respectively, 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 their vesting date as determined by the Company's closing stock price. Total payments for an officer's tax obligations to the taxing authorities were \$681,000, \$1,034,000 and \$1,109,000 in fiscal year 2014, 2013 and 2012, respectively, and are reflected as a financing activity within the 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

WEST\249206192.2

63

---

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

shares that would have otherwise been issued as a result of the vesting and did not represent an expense to the Company. There is no unvested restricted stock awards at June 30, 2014.

## Note 11. Income Taxes

The components of income before income tax provision for the years ended June 30, 2014, 2013 and 2012 are as follows (in thousands):

	Years Ended June 30,		
	2014	2013	2012
United States	\$66,152	\$14,102	\$41,540
Foreign	13,442	12,494	3,811
Income before income tax provision	\$79,594	\$26,596	\$45,351

The income tax provision for the years ended June 30, 2014, 2013 and 2012, consists of the following (in thousands):

	Years Ended June 30,		
	2014	2013	2012
Current:			
Federal	\$20,102	\$7,904	\$17,210
State	624	684	817
Foreign	5,252	3,806	1,206
	25,978	12,394	19,233
Deferred:			
Federal	122	(5,984)	(2,862)
State	(472)	(1,093)	(873)
Foreign	(191)	—	—
	(541)	(7,077)	(3,735)
Income tax provision	\$25,437	\$5,317	\$15,498

The Company's net deferred tax assets as of June 30, 2014 and 2013, consist of the following (in thousands):

	June 30,	
	2014	2013
Warranty accrual	\$2,459	\$2,204
Marketing fund accrual	938	795
Inventory valuation	9,472	10,313
Stock-based compensation	4,114	3,889
Research and development credit	1,938	1,906
Other	4,719	4,216
Total deferred income tax assets	23,640	23,323
Deferred tax liabilities-depreciation and other	(644)	(262)
Deferred income tax assets-net	\$22,996	\$23,061





Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The cumulative undistributed earnings of our foreign subsidiaries of \$22,737,000 at June 30, 2014 are considered to be indefinitely reinvested and accordingly, no provisions for federal and state income taxes have been provided thereon. The Company determined that the calculation of the amount of unrecognized deferred tax liability related to these cumulative unremitted earnings was not practicable. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to various foreign countries.

Income tax benefits resulting from stock option transactions of \$7,041,000, \$1,734,000 and \$3,421,000 were credited to stockholders' equity in the years ended June 30, 2014, 2013 and 2012, respectively.

The following is a reconciliation for the years ended June 30, 2014, 2013 and 2012, of the statutory rate to the Company's effective federal tax rate:

	Years Ended June 30,			
	2014	2013	2012	
Tax at statutory rate	35.0	% 35.0	% 35.0	%
State income tax, net of federal tax benefit	3.3	3.8	2.5	
Foreign tax rate differences	(2.5 )	(6.7 )	(1.0 )	)
Research and development tax credit	(4.0 )	(14.4 )	(5.7 )	)
Qualified production activity deduction	(1.8 )	(2.9 )	(2.4 )	)
Stock based compensation	4.5	13.5	6.2	
Uncertain tax positions	(2.1 )	(11.0 )	(0.5 )	)
Subpart F income inclusion	(3.9 )	(3.8 )	(0.6 )	)
Foreign withholding tax	4.1	5.5	2.0	
Federal tax return to provision adjustment	(0.7 )	(3.9 )	(0.2 )	)
Other	0.1	4.9	(1.1 )	)
Effective tax rate	32.0	% 20.0	% 34.2	%

As of June 30, 2014, the Company had state research and development tax credit carryforwards of \$7,738,000. The state research and development tax credits will carryforward to offset future state income taxes. \$4,755,000 of the state research and development tax credit carryforwards were attributable to excess tax deductions from stock options exercises, and were not included in the deferred tax assets shown above. The benefit of these carryforwards will be credited to equity when realized.

In January 2013, the American Taxpayer Relief Act of 2012 reinstated the U.S. federal R&D tax credit for two years to December 31, 2013, retroactive to January 1, 2012. As a result, during fiscal year 2013, the Company recognized a total tax benefit of \$3,708,000, of which \$1,455,000 related to fiscal year 2012.

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes the activity related to the unrecognized tax benefits (in thousands):

	Gross*	
	Unrecognized	
	Income Tax	
	Benefits	
Balance at June 30, 2011	\$6,549	
Gross increases:		
For current year's tax positions	1,302	
For prior years' tax positions	501	
Gross decreases:		
Settlements and releases due to the lapse of statutes of limitations	(225	)
For prior year' tax positions	(102	)
Balance at June 30, 2012	8,025	
Gross increases:		
For current year's tax positions	2,044	
For prior years' tax positions	490	
Gross decreases:		
Settlements and releases due to the lapse of statutes of limitations	(2,470	)
For prior years' tax positions	—	
Balance at June 30, 2013	8,089	
Gross increases:		
For current year's tax positions	3,120	
For prior years' tax positions	132	
Gross decreases:		
Settlements and releases due to the lapse of statutes of limitations	(1,726	)
For prior years' tax positions	—	
Balance at June 30, 2014	\$9,615	

\*excludes interest, penalties, federal benefit of state reserves

In March 2014, the California Franchise Tax Board and the Company agreed to all outstanding items related to the audit of the Company's California income tax returns for the fiscal years ended June 30, 2008 through June 30, 2010. As a result of the resolution, the Company recognized a net benefit to the provision for income taxes of \$1,089,000, which included a reduction in interest expense of \$46,000.

In March 2013, the Internal Revenue Service and the Company agreed to all outstanding items related to the audit of the Company's federal income tax returns for the fiscal years ended June 30, 2008 through June 30, 2010. As a result of the resolution, the Company recognized a net benefit to the provision for income taxes of \$2,017,000, which included a reduction in interest expense of \$266,000.

The total amount of unrecognized tax benefits that would affect the effective tax rate, if recognized, is \$8,168,000 and \$6,499,000 as of June 30, 2014 and 2013, respectively. In fiscal year 2014, the liability for gross unrecognized tax benefit was reduced by \$1,726,000 primarily due to the audit settlement with California Franchise Tax Board and foreign tax authority.

The Company's policy is to include interest and penalties related to unrecognized tax benefits within the provision for taxes on the consolidated statements of operations. As of June 30, 2014 and 2013, the Company had accrued \$818,000 and \$797,000 for the payment of interest and penalties relating to unrecognized tax benefits, respectively. During fiscal year 2014, 2013 and 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. The federal statute of limitations remain open in general for tax years 2011 through 2014. The state statute of limitations remain open in general for tax years 2009 through 2014. The statute of limitations in major foreign jurisdictions remain open for

WEST\249206192.2

66

---

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

examination in general for tax years 2007 through 2014. The Company does not expect its unrecognized tax benefits to change materially over the next 12 months.

## Note 12. Commitments and Contingencies

**Litigation and Claims—** 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 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 June 30, 2014, these remaining non-cancellable commitments were \$211,090,000 compared to \$249,005,000 as of June 30, 2013.

Included in the above non-cancellable commitments are hard disk drive purchase commitments totaling approximately \$45,210,000, which will be paid through December 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 and the purchase price for these components will be reviewed quarterly with the suppliers. The Company has been negotiating the purchase price with the suppliers on an ongoing basis based upon market rates.

**Lease Commitments—**The Company leases offices and equipment under noncancelable operating leases which expire at various dates through 2019. In addition, the Company leases certain of its equipment under capital leases. The future minimum lease commitments under all leases are as follows (in thousands):

	Balance as of	
	Capital Leases	Operating Leases
Year ending June 30, 2015	\$103	\$3,265
Year ending June 30, 2016	99	1,129
Year ending June 30, 2017	90	130
Year ending June 30, 2018	66	1
Year ending June 30, 2019	30	1
Thereafter	—	—
Total minimum lease payments	388	\$4,526
Less: Amounts representing interest	49	
Present value of minimum lease payments	339	
Less: Long-term portion	259	
Current portion	\$80	

Rent expense for the years ended June 30, 2014, 2013 and 2012, was \$3,477,000, \$3,345,000 and \$3,444,000, respectively.

## Note 13. Retirement Plan

The Company sponsors a 401(k) savings plan for eligible U.S. employees and their beneficiaries. Contributions by the Company are discretionary, and no contributions have been made by the Company for the years ended June 30, 2014, 2013 and 2012.

Beginning in March 2003, employees of Super Micro Computer, B.V. have the option to deduct a portion of their gross wages and invest the amount in a defined contribution plan. The Company has agreed to match 10% of the amount that is deducted monthly from employees' wages. Similar to contributions into a 401(k) plan, the Company's obligation is limited to the contributions made to the contribution plan. Investment risk and investment rewards are assumed by the employees and not

WEST\249206192.2

67

---

Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

by the Company. For the years ended June 30, 2014, 2013 and 2012, the Company's matching contribution was \$198,000, \$133,000 and \$115,000, respectively.

The Company maintains a defined benefit pension plan of Super Micro Computer, Taiwan that covers all eligible employees within Taiwan. Pension plan benefits are based primarily on participants' compensation and years of service credited as specified under the terms of Taiwan's plan. The funding policy is consistent with the local requirements of Taiwan. The Company's obligation is limited to the contributions made to the pension plan. Plan assets of the funded defined benefit pension plan are deposited into a government-managed account in which the Company has no control over investment strategy. For the years ended June 30, 2014, 2013 and 2012, the Company's contribution was \$740,000, \$660,000 and \$509,000, respectively.

Note 14. 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 years ended June 30, 2014, 2013 and 2012, of net sales by geographic region (in thousands):

	Years Ended June 30,		
	2014	2013	2012
Net sales:			
United States	\$809,250	\$629,869	\$589,709
Europe	316,760	265,635	221,373
Asia	299,403	237,798	175,980
Other	41,789	29,259	26,812
	\$1,467,202	\$1,162,561	\$1,013,874

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

	June 30,	
	2014	2013
Long-lived assets:		
United States	\$94,119	\$61,976
Asia	36,123	33,500
Europe	347	436
	\$130,589	\$95,912

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

Years Ended June 30,		2013		2012	
2014		Amount	Percent of	Amount	Percent of
Amount	Percent of		Net Sales		Net Sales

Edgar Filing: Super Micro Computer, Inc. - Form 10-K

Server systems	\$740,789	50.5	%	\$501,868	43.2	%	\$447,000	44.1	%
Subsystems and accessories	726,413	49.5	%	660,693	56.8	%	566,874	55.9	%
Total	\$1,467,202	100.0	%	\$1,162,561	100.0	%	\$1,013,874	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

WEST\249206192.2

68



Table of Contents

SUPER MICRO COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

net sales for any of the years ended June 30, 2014, 2013 and 2012. No customer accounted for 10% or more of the Company's accounts receivable as of June 30, 2014. One customer accounted for 14.4% of the Company's accounts receivable as of June 30, 2013.

## Note 15. Quarterly Financial Data (Unaudited)

The following table presents the Company's unaudited quarterly financial data. This information has been prepared on a basis consistent with that of the audited consolidated financial statements. The Company believes that all necessary adjustments, consisting of normal recurring accruals and adjustments, have been included to present fairly the quarterly financial data. The Company's quarterly results of operations for these periods are not necessarily indicative of future results of operations.

	Three Months Ended			
	Sep. 30, 2013	Dec. 31, 2013	Mar. 31, 2014	Jun. 30, 2014
	(In thousands, except per share data)			
Net sales	\$309,016	\$356,362	\$373,755	\$428,069
Gross profit	\$46,792	\$55,092	\$57,264	\$66,397
Net income	\$7,699	\$13,335	\$16,574	\$16,549
Net income per common share:				
Basic	\$0.18	\$0.31	\$0.38	\$0.37
Diluted	\$0.17	\$0.30	\$0.35	\$0.34

	Three Months Ended			
	Sep. 30, 2012	Dec. 31, 2012	Mar. 31, 2013	Jun. 30, 2013
	(In thousands, except per share data)			
Net sales	\$270,707	\$291,487	\$278,034	\$322,333
Gross profit	\$35,015	\$40,122	\$38,893	\$46,023
Net income	\$899	\$4,914	\$7,040	\$8,426
Net income per common share:				
Basic	\$0.02	\$0.12	\$0.17	\$0.20
Diluted	\$0.02	\$0.11	\$0.16	\$0.19

## Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Table of Contents

Item 9A. Controls and Procedures

Evaluation of Effectiveness of Disclosure Controls and Procedures

We are committed to maintaining disclosure controls and procedures designed to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Exchange Act. The evaluation considered the procedures designed to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of June 30, 2014.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation described in this Item 9A that occurred during the fourth quarter of fiscal year 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Internal Control

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of management override or improper acts, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in a cost-effective control system, misstatements due to management override, error or improper acts may occur and not be detected. Any resulting misstatement or loss may have an adverse and material effect on our business, financial condition and results of operations.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework). Based on our evaluation, our management has concluded that our internal control over financial reporting

was effective as of June 30, 2014 to provide reasonable assurance regarding the reliability of financial reporting and preparation of consolidated financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. The effectiveness of our internal control over financial reporting as of June 30, 2014 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, and their opinion is stated in their report which is included in this Annual Report on Form 10-K.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Super Micro Computer, Inc.  
San Jose, California

We have audited the internal control over financial reporting of Super Micro Computer, Inc. and subsidiaries (the “Company”) as of June 30, 2014, based on the criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2014, based on the criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended June 30, 2014 of the Company and our report dated September 15, 2014 expressed an unqualified opinion on those financial statements and included an explanatory paragraph relating to significant related party transactions.

/s/ Deloitte & Touche LLP  
San Jose, California  
September 15, 2014

WEST\249206192.2

71

---

Table of Contents

## Item 9B. Other Information

None.

## PART III

## Item 10. Directors, Executive Officers, and Corporate Governance

## Executive Officers and Directors

Our executive officers and directors and their ages and their positions as of August 31, 2014, are as follows:

Name	Age	Position(s)
Charles Liang	56	President, Chief Executive Officer and Chairman of the Board
Howard Hideshima	55	Senior Vice President, Chief Financial Officer
Phidias Chou	56	Senior Vice President, Worldwide Sales
Yih-Shyan (Wally) Liaw	59	Senior Vice President of International Sales, Corporate Secretary and Director
Chiu-Chu (Sara) Liu Liang	52	Senior Vice President of Operations, Treasurer and Director
Gregory K. Hinckley(1)(4)	67	Director
Hwei-Ming (Fred) Tsai(1)(2)(3)(4)	58	Director
Laura Black(1)(4)	53	Director
Sherman Tuan(2)(3)(4)	60	Director

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

(3) Member of the Nominating and Corporate Governance Committee

(4) Determined by the Board of Directors to be “independent” as defined by applicable listing standards of The NASDAQ Stock Market

## Executive Officers

Charles Liang founded Super Micro and has served as our President, Chief Executive Officer and Chairman of the Board since our inception in September 1993. Mr. Liang has been developing server system architectures and technologies for the past two decades. From July 1991 to August 1993, Mr. Liang was President and Chief Design Engineer of Micro Center Computer Inc., a high-end motherboard design and manufacturing company. From January 1988 to April 1991, Mr. Liang was Senior Design Engineer and Project Leader for Chips & Technologies, Inc., a chipset technology company, and Suntek Information International Group, a system and software development company. Mr. Liang has been granted many server technology patents. Mr. Liang holds an M.S. in Electrical Engineering from the University of Texas at Arlington and a B.S. in Electrical Engineering from National Taiwan University of Science & Technology in Taiwan. Our Nominating and Corporate Governance Committee (“Governance Committee”) concluded that Mr. Liang should serve on the Board based on his skills, experience and qualifications in managing technology businesses, his technical expertise, and his long familiarity with the Company’s business.

Howard Hideshima has served as our Senior Vice President, Chief Financial Officer since May 2014 and our Chief Financial Officer since May 2006. From November 2005 to May 2006, Mr. Hideshima was Vice President of Finance at Force10 Networks, Inc., a network equipment company, and from July 2004 to November 2005, he served as Director of Finance for that company. From April 2001 to June 2004, Mr. Hideshima was Chief Financial Officer and Vice President of Finance and Administration at Virtual Silicon Technology, Inc., a semiconductor intellectual property company. From January 2000 to March 2001, he served as Chief Financial Officer at Internet Corporation,

an Internet services company. From January 1999 to December 1999, he was Vice President of Finance and from July 1997 to December 1999 Chief Accounting Officer at ESS Technology, Inc., a fabless semiconductor company. Mr. Hideshima holds an M.B.A. from San Francisco State University and a B.S. in Business Administration from the University of California at Berkeley.

WEST\249206192.2

72

---

Table of Contents

Phidias Chou has served as our Senior Vice President, Worldwide Sales since May 2014 and Vice President, Worldwide Sales from September 2008 to April 2014. Mr. Chou served as our Vice President of Sales, Regional and Strategic Account from July 2006 to August 2008 and served as our Senior Director of Sales from August 2000 to July 2006. From April 1996 to August 2000, Mr. Chou was General Manager at US Sertek, a subsidiary of Acer, Inc., a PC and server company. From July 1992 to April 1996, he was Director of Sales and from October 1987 to July 1992, he was PC Product Manager at Acer Taiwan. Mr. Chou received an M.B.A. from Chung Yuan Christian University and a B.S. in Mechanical Engineering from National Chung Hsing University.

Yih-Shyan (Wally) Liaw co-founded Super Micro and has served as our Senior Vice President of International Sales since May 2014 and Corporate Secretary and a member of our board of directors since our inception in September 1993. Mr. Liaw was our Vice President of International Sales from September 1993 to April 2014. From 1988 to 1991, Mr. Liaw was Vice President of Engineering at Great Tek, a computer company. Mr. Liaw holds an M.S. in Computer Engineering from University of Arizona, an M.S. in Electrical Engineering from Tatung Institute of Technology in Taiwan, and a B.S. degree from Taiwan Provincial College of Marine and Oceanic Technology. Our Governance Committee concluded that Mr. Liaw should serve on the Board based on his skills, experience and qualifications in managing technology businesses, his technical expertise and his long familiarity with the Company's business.

Chiu-Chu (Sara) Liu Liang co-founded Super Micro and has served as Senior Vice President of Operations since May 2014 and Treasurer and a member of our board of directors since our inception in September 1993. Ms. Liang was Vice President of Operations from September 1993 to April 2014. From 1985 to 1993, Ms. Liang held finance and operational positions for several companies, including Micro Center Computer Inc. Ms. Liang holds a B.S. in Accounting from Providence University in Taiwan. Ms. Liang is married to Mr. Charles Liang, our Chairman, President and Chief Executive Officer. Our Governance Committee concluded that Ms. Liang should serve on the Board based on her skills, experience, her general expertise in business and accounting and her long familiarity with the Company's business.

Non-Management Directors

Gregory K. Hinckley has been a member of our board of directors since January 2009. Mr. Hinckley is currently the President and interim Chief Financial Officer of Mentor Graphics Corporation, a publicly traded provider of electronic design automation solutions. He began at Mentor Graphics in January 1997. Prior to Mentor Graphics, he served as Chief Financial Officer for two other publicly traded companies—VLSI Technology, Inc. and Bio-Rad Laboratories, Inc. Mr. Hinckley is a director of SI-Bone, Inc. (a privately held orthopedic device company), an advisory director of Portland State University Engineering School and a board of trustees of Claremont McKenna College. Until 2013, Mr. Hinckley was a director of Intermec, Inc., a provider of integrated systems solutions. Mr. Hinckley holds a Bachelor of Arts degree in physics from Claremont McKenna College, a Master of Science degree in applied physics from University of California, an MBA degree from Harvard Business School, and was a Fullbright Scholar in applied mathematics at Nottingham University in England. He is also a Certified Public Accountant. Our Governance Committee concluded that Mr. Hinckley should serve on the Board based on his skills, experience and qualifications in managing technology businesses, his technical expertise, his experience and qualifications in finance and operations and his financial literacy.

Hwei-Ming (Fred) Tsai has been a member of our board of directors since August 2006. Mr. Tsai has served as an independent director of ANZ Bank (Taiwan) Limited, a wholly owned subsidiary of Australia and New Zealand Banking Group Limited since September 2013. Mr. Tsai has also been an independent business consultant since January 2010. Mr. Tsai served as Executive Vice President and Chief Financial Officer of SinoPac Bancorp, a financial holding company based in Los Angeles, California from February 2001 and August 2005, respectively, to



December 2009. He also served as Senior Executive Vice President of Far East National Bank, a commercial bank that is held by SinoPac Bancorp from December 2002 to December 2009. Mr. Tsai received a Master in Professional Accounting from the University of Texas at Austin and a B.A. in Accounting from National Taiwan University in Taiwan. Our Governance Committee concluded that Mr. Tsai should serve on the Board based on his skills, experience and qualifications in capital finance, his financial literacy and his familiarity with the Company's business.

Laura Black has been a member of our board of directors since April 2012. Since March 1999, she has served as a Managing Director of Needham & Company, LLC, a full service investment banking firm. At Needham, she has raised public and private equity capital for numerous technology companies and served as strategic financial advisor on multiple M&A transactions. From July 1995 to February 1999, she served as a Managing Director and Corporate Finance at Black & Company, a regional investment bank subsequently acquired by Wells Fargo Van Kasper. From July 1993 to June 1995, Ms. Black served as a Director for TRW Avionics & Surveillance Group where she evaluated acquisition candidates, managed direct investments and raised venture capital to back spin-off companies. From August 1983 to August 1992, she worked at

WEST\249206192.2

73

Table of Contents

TRW as an electrical engineer designing spread spectrum communication systems. Ms. Black holds a BSEE from University of California at Davis, a MSEE from Santa Clara University and a MS Management from Stanford. Our Governance Committee concluded that Ms. Black should serve on the Board based on her skills, experience and qualifications in capital finance, her financial literacy and her familiarity with technology businesses.

Sherman Tuan has been a member of our board of directors since February 2007. Mr. Tuan is founder of PurpleComm, Inc. (doing business as 9x9.tv), a platform for connected TV, where he has served as Chief Executive Officer since January 2005 and Chairman of the Board since June 2003. From September 1999 to May 2002, he was director of Metromedia Fiber Network, Inc., a fiber optical networking infrastructure provider. Mr. Tuan was co-founder of AboveNet Communications, Inc., an internet connectivity solutions provider, where he served as President from March 1996 to January 1998, Chief Executive Officer from March 1996 to May 2002 and director from March 1996 to September 1999. Mr. Tuan holds a degree in Electrical Engineering from Feng-Chia University in Taiwan. Our Governance Committee concluded that Mr. Tuan should serve on the Board based on his skills, experience and qualifications in managing technology businesses, his technical expertise, and his familiarity with the Company's business.

Except for Mr. Charles Liang and Ms. Chiu-Chu (Sara) Liu Liang who are married, there are no other family relationships among any of our directors or executive officers.

Composition of the Board

The authorized number of directors of the Company is seven. There are currently seven directors. Our amended and restated certificate of incorporation provides for a classified board of directors divided into three classes. The members of each class are elected to serve a three-year term with the term of office for each class ending in consecutive years. Vacancies may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director. Alternatively, the board of directors, at its option, may reduce the number of directors. The current composition of the board is:

Class I Directors (terms expiring at the 2016 annual meeting)	Charles Liang Sherman Tuan
Class II Directors (terms expiring at the 2014 annual meeting)	Yih-Shyan (Wally) Liaw Laura Black Gregory K. Hinckley
Class III Directors (terms expiring at the 2015 annual meeting)	Chiu-Chu (Sara) Liu Liang Hwei-Ming (Fred) Tsai

CORPORATE GOVERNANCE

Corporate Governance Guidelines

We have adopted "Corporate Governance Guidelines" to help ensure that the board of directors is independent from management, appropriately performs its function as the overseer of management, and that the interests of the board of directors and management align with the interests of the stockholders. The "Corporate Governance Guidelines" are available at [www.Supermicro.com](http://www.Supermicro.com) by first clicking on "About Us" and then "Investor Relations" and then "Corporate Governance," and are also available in print to any stockholder who requests a copy.

Code of Ethics

We have adopted a “Code of Business Conduct and Ethics” that is applicable to all directors and employees and embodies our principles and practices relating to the ethical conduct of our business and our long-standing commitment to honesty, fair dealing and full compliance with all laws affecting our business. The “Code of Business Conduct and Ethics” is available at [www.Supermicro.com](http://www.Supermicro.com) by first clicking on “About Us” and then “Investor Relations” and then “Corporate Governance,” and is also available in print without charge to any stockholder who requests it. Any substantive amendment or waiver of the Code relating to executive officers or directors will be made only after approval by a committee comprised of a majority of our independent directors and will be promptly disclosed on our website within four business days.

WEST\249206192.2

74

---

## Table of Contents

### Director Independence

The rules of NASDAQ generally require that a majority of the members of a listed company's board of directors be independent. In addition, the listing rules generally require that, subject to specified exceptions, each member of a listed company's audit, compensation, and nominating and corporate governance committees be independent. Audit committee members must also satisfy the independence criteria set forth in Rule 10A-3 under the Exchange Act and the listing requirements of The NASDAQ Stock Market. In addition, compensation committee members must satisfy the independence criteria set forth in Rule 10C-1 under the Exchange Act and the listing requirements of The NASDAQ Stock Market.

The board affirmatively determines the independence of each director and nominee for election as a director in accordance with guidelines it has adopted, which include all elements of independence set forth in applicable NASDAQ listing standards. Our director independence standards are set forth in our "Corporate Governance Guidelines" available at the website noted above.

Based on these standards, our board of directors has determined that four of its current seven members, Gregory K. Hinckley, Hwei-Ming (Fred) Tsai, Laura Black and Sherman Tuan, are "independent directors" under the applicable rules and regulations of the SEC and the listing requirements and rules of The NASDAQ Stock Market. In assessing the independence of Mr. Hinckley, the Board considered an immaterial level of transactions between the Company and Mentor Graphics.

### Executive Sessions

Non-management directors meet in executive session without management present each time the board holds its regularly scheduled meetings.

### Communications with the Board of Directors

The board of directors welcomes the submission of any comments or concerns from stockholders or other interested parties. If you wish to send any communications to the board of directors, you may use one of the following methods:

✉ Write to the board at the following address:

Board of Directors

Super Micro Computer, Inc.

c/o Robert Aeschliman, General Counsel

980 Rock Avenue

San Jose, California 95131

✉ E-mail the board of directors at [BODInquiries@supermicro.com](mailto:BODInquiries@supermicro.com)

Communications that are intended specifically for the independent directors or non-management directors should be sent to the e-mail address or street address noted above, to the attention of the "Independent Directors".

## MEETINGS AND COMMITTEES OF THE BOARD

### Board Meetings

Each director is expected to devote sufficient time, energy and attention to ensure diligent performance of his or her duties and to attend all board and committee meetings. We encourage, but do not require, each board member to

attend our annual meeting of stockholders. Five of our then directors attended our annual meeting of stockholders held during fiscal 2014. The board of directors held four meetings during fiscal year 2014, each of which were regularly scheduled meetings. The board of directors also acted by unanimous written consent one time during fiscal year 2014. All directors attended at least 75% of the meetings of the board of directors and of the committees on which they served during the time they served as a director in fiscal year 2014.

#### Board Leadership Structure

Our Chairman, Charles Liang, is also our CEO. The Board and our Governance Committee believe that it is appropriate for Mr. Liang to serve as both the CEO and Chairman due to the relatively small size of our Board, and the fact that Mr. Liang is the founder of the Company with extensive experience in our industry. The Company does not currently have a lead independent director.

WEST\249206192.2

75

---

Table of Contents

Board Role in the Oversight of Risk

Our Board exercises oversight over our risk management activities, requesting and receiving reports from management. The board of directors exercises this oversight responsibility directly and through its committees. Our Board has delegated primary responsibility for oversight of risks relating to financial controls and reporting to our Audit Committee, which in turn reports to the full Board on such matters as appropriate. The Audit Committee also assists the Board in oversight of certain Company risks, particularly in the areas of internal controls, financial reporting and review of related party transactions.

Our management with oversight from our Compensation Committee, has reviewed its compensation policies and practices with respect to risk-taking incentives and risk management, and does not believe that potential risks arising from its compensation policies or practices are reasonably likely to have a material adverse effect on the Company.

Committees of the Board of Directors

The board has three standing committees to facilitate and assist the board of directors in discharging its responsibilities: the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. In accordance with applicable NASDAQ listing standards, each of these committees is comprised solely of non-employee, independent directors. The Charter for each committee is available at [www.Supermicro.com](http://www.Supermicro.com) by first clicking on “About Us” and then “Investor Relations” and then “Corporate Governance”. The charter of each committee also is available in print to any stockholder who requests it. The following table shows the current members of each of the standing board committees:

Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
Laura Black (1) Gregory K. Hinckley Hwei-Ming (Fred) Tsai	Sherman Tuan(1) Hwei-Ming (Fred) Tsai	Hwei-Ming (Fred) Tsai(1) Sherman Tuan

---

(1)Committee Chairperson

Audit Committee

The Audit Committee has three members. The Audit Committee met six times in fiscal year 2014, five of which were regularly scheduled quarterly meetings and one was special meeting. Our board has determined that each member of our Audit Committee meets the requirements for independence under the applicable listing standards of NASDAQ and the rules of the SEC. Our board has also determined that each member of our Audit Committee is a “financial expert” as defined under applicable SEC rules.

As outlined more specifically in the Audit Committee charter, the Audit Committee has, among other duties, the following responsibilities:

- The appointment, compensation and retention of our independent auditors, and the review and evaluation of the auditors’ qualifications, independence and performance;
- Oversees the auditors’ audit work and reviews and pre-approves all audit and non-audit services that may be performed by them;

- Reviews and approves the planned scope of our annual audit;
- Monitors the rotation of partners of the independent auditors on our engagement team as required by law;
- Reviews our financial statements and discusses with management and the independent auditors the results of the annual audit and the review of our quarterly financial statements;
- Reviews our critical accounting policies and estimates;
- Oversees the adequacy of our financial controls;
- Reviews annually the audit committee charter and the committee's performance;
- Reviews and approves all related-party transactions; and

WEST\249206192.2

76

---

## Table of Contents

Establishes and oversees procedures for the receipt, retention and treatment of complaints regarding accounting, internal controls or auditing matters and oversees enforcement, compliance and remedial measures under our Code of Business Conduct and Ethics.

### Compensation Committee

The Compensation Committee has two members and met five times in fiscal year 2014. The Compensation Committee is comprised solely of non-employee directors. Our board has determined that each member of our Compensation Committee meets the requirements for independence under the applicable listing standards of NASDAQ.

As outlined more specifically in the Compensation Committee charter, the Compensation Committee has, among other duties, the following responsibilities:

- Reviews and approves corporate goals and objectives relevant to compensation of the chief executive officer and other executive officers;
- Evaluates the performance of the chief executive officer and other executive officers in light of those goals and objectives;
- Sets compensation of the chief executive officer and other executive officers;
- Administers the issuance of restricted stock grants, stock options and other awards to executive officers and directors under our stock plans; and
- Reviews and evaluates, at least annually, the performance of the compensation committee and its members, including compliance of the compensation committee with its charter.

### Nominating and Corporate Governance Committee

The Governance Committee has two members and met four times in fiscal year 2014. The Governance Committee is comprised solely of non-employee directors. Our board has determined that each member of our Governance Committee meets the requirements for independence under the applicable listing standards of NASDAQ.

As outlined more specifically in the Governance Committee charter, the Governance Committee has, among other duties, the following responsibilities:

- Identifies individuals qualified to become directors;
- Recommends to our board of directors director nominees for each election of directors;
- Develops and recommends to our board of directors criteria for selecting qualified director candidates;
- Considers committee member qualifications, appointment and removal;
- Recommends corporate governance guidelines applicable to us;
- Provides oversight in the evaluation of our board of directors and each committee;
- Reviews and monitors our Code of Business Conduct and Ethics and reviews and approves any waivers of our Code of Business Conduct and Ethics; and
- Coordinates and reviews board and committee charters for consistency and adequacy under applicable rules, and make recommendations to the board for any proposed changes.

### Compensation Committee Interlocks and Insider Participation

None of the members of the Compensation Committee is a current or former officer or employee of the Company or had any relationship with the Company requiring disclosure. In addition, during fiscal year 2014, none of our executive officers served as a member of the board of directors or compensation committee of any other entity that has



one or more executive officers who served on our board of directors or Compensation Committee.

WEST\249206192.2

77

---

Table of Contents

Section 16(a) Beneficial Ownership Reporting Compliance

The members of our board of directors, our executive officers and persons who hold more than 10% of our outstanding common stock are subject to the reporting requirements of Section 16(a) of the Exchange Act, which require them to file reports with respect to their ownership of our common stock and their transactions in our common stock. Based upon (i) the copies of Section 16(a) reports that we received from such persons for their fiscal year 2014 transactions in our common stock and their common stock holdings and (ii) the written representations received from one or more of such persons that no annual Form 5 reports were required to be filed by them for fiscal year 2014, we believe that all reporting requirements under Section 16(a) were met in a timely manner by the persons who were executive officers, members of the board of directors or greater than 10% stockholders during such fiscal year, other than one late report made by each of Charles Liang, Chiu-Chu (Sara) Liu Liang, Phidias Chou, Yih-Shyan Wally Liaw, Gregory Hinckley, Sherman Tuan and Laura Black in each case with respect to one transaction and four late report made by Hwei-Ming (Fred) Tsai in each case with respect to one transaction.

Item 11. Executive Compensation

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Process Overview

The Compensation Committee of the board of directors discharges the board of directors' responsibilities relating to compensation of all of our executive officers. The Compensation Committee is comprised of two non-employee directors, both of whom are independent pursuant to the applicable listing rules of NASDAQ, Rule 16b-3 under the Exchange Act, and Section 162(m) of the Internal Revenue Code ("Code").

The agenda for meetings is determined by the Chair of the Compensation Committee with the assistance of Charles Liang, our President and Chief Executive Officer, and Howard Hideshima, our Chief Financial Officer. Committee meetings are regularly attended by one or more of Mr. Liang, Mr. Hideshima and Robert Aeschliman, our General Counsel. However, Messrs. Liang and Hideshima do not attend the portion of meetings during which their own performance or compensation is being discussed. Mr. Liang, Mr. Hideshima and Mr. Aeschliman support the Compensation Committee in its work by providing information relating to our financial plans, performance assessments of our executive officers and other personnel-related data. In addition, the Compensation Committee has the authority under its charter to hire, terminate and approve fees for advisors, consultants and agents as it deems necessary to assist in the fulfillment of its responsibilities. In August 2013 and April 2014, as part of making an overall assessment of each individual's role and performance, and structuring our compensation programs for fiscal year 2014, the Compensation Committee reviewed recommendations of management as well as publicly available peer group compensation data.

Compensation Philosophy and Objectives

It is the Compensation Committee's philosophy to link the named executive officers' compensation to corporate performance. The base salary, quarterly bonuses and stock option grants of the named executive officers are determined in part by the Compensation Committee reviewing data on prevailing compensation practices of comparable technology companies with whom we compete for executive talent, and evaluating such information in connection with our corporate goals and compensation practices. The Company's compensation philosophy has been unchanged over the last several years.

The Compensation Committee considers various sources of competitive data when determining executive compensation levels, including compensation data from a sampling of public companies and public compensation surveys. For fiscal year 2014, the sample of companies consisted of the following companies:

Brocade Communications Systems, Inc.  
Juniper Network, Inc.  
Netgear, Inc.

Network Appliance, Inc.  
Riverbed Technology, Inc.  
Silicon Graphics International

In selecting the companies for inclusion in the sample, the following factors were considered: industry, net revenues, operating income and whether the company may compete against us for executive talent. These companies ranged in annual revenue from

WEST\249206192.2

78

## Table of Contents

approximately \$767.0 million to \$6.3 billion. In addition to gathering data specific to the above listed companies, the Compensation Committee also reviewed public surveys of compensation practices.

The Compensation Committee does not seek to specifically benchmark compensation based upon the sample companies reviewed nor does the Compensation Committee employ any other formulaic process in making compensation decisions. Rather the Compensation Committee uses its subjective judgment based upon a review of all information, including an annual review for each officer of his or her level of responsibility, contributions to our financial results and our overall performance. The Compensation Committee makes a generalized assessment of these factors and this information is not weighted in any specific manner.

We believe that our current compensation arrangements for several of our executive officers, including our Chief Executive Officer, are significantly below typical compensation levels for similar positions at comparable companies. This is principally due to the high level of Company stock ownership held by such persons. As we continue to grow, we may need to increase our recruiting of new executives from outside of the Company. This in turn may require us to pay higher compensation closer to or in excess of that typical paid by comparable companies.

Finally, we believe that creating stockholder value requires not only managerial talent but active participation by all employees. In recognition of this, we try to minimize the number of compensation arrangements that are distinct or exclusive to our executive officers. We currently provide base salary, quarterly bonuses and long-term equity incentive compensation to a considerable number of our domestic employees and international employees, in addition to our executive officers.

### The Role of Stockholder Say-on-Pay Votes.

Our board of directors, the Compensation Committee, and our management value the opinions of our stockholders. At our annual meeting of stockholders held on February 13, 2014 (the "2013 Annual Meeting"), we provided our stockholders the opportunity to vote to approve, on an advisory basis, the compensation of the Company's named executive officers as disclosed in the proxy statement for our 2013 Annual Meeting. At the meeting, 35,521,057 shares or approximately 98.1% of the stockholders who voted on the "say-on-pay" proposal approved the compensation of our named executive officers, while only 514,344 or approximately 1.4% voted against (with approximately 155,954 shares or 0.4% abstaining). 4,727,490 shares held by brokers were not voted with respect to this proposal. Although the advisory stockholder vote on executive compensation is non-binding, the Compensation Committee has considered and will continue to consider, the outcome of the vote when making future compensation decisions for named executive officers. In determining and deciding on executive compensation for fiscal year 2014, our Compensation Committee took into account the results of the 2013 Annual Meeting stockholder advisory vote to approve executive compensation, particularly the strong support expressed by the Company's stockholders, as one of the many factors considered in deciding that the Company's compensation policies and procedures for 2014 should largely remain consistent with our policies and procedures in prior years.

### Role of Executive Officers in the Compensation Process

Management provides recommendations to the Compensation Committee on issues such as compensation program design, and evaluations of executive and Company performance. In fiscal year 2014, the Compensation Committee also had access to competitive data collected by management. While the Compensation Committee carefully considers all recommendations made by members of management, ultimate authority for all compensation decisions regarding our executive officers rests with the Compensation Committee.

In addition, the Company evaluates the use of a compensation consultant each year, but currently does not feel that it is necessary to engage a compensation consultant as part of the Company's compensation process.

Fiscal Year 2014 Executive Officer Compensation Components

For fiscal year 2014, the principal components of compensation for our executive officers were:

• Base salary;  
• Quarterly bonus; and  
• Equity-Based Incentive Compensation.

**Base Salary.** Base salaries for our executive officers other than the Chief Executive Officer are determined annually by the Compensation Committee based upon recommendations by our chief executive officer, taking into account such factors as salary norms in comparable companies and publicly available data regarding compensation increases in the industry, a subjective assessment of the nature of the position and an annual review of the contribution and experience of each executive officer. For the Chief Executive Officer, the Compensation Committee considers substantially the same sort of information, as well as the size of the company and the chief executive officer's overall stock ownership.

WEST\249206192.2

79

---

Table of Contents

## Fiscal Year 2014 Executive Officer Compensation

In August 2013, the Compensation Committee met to review the base salaries of our executive officers for fiscal year 2014. In determining base salaries for fiscal year 2014, the Compensation Committee decided to increase the base salary of our executive officers other than the Chief Executive Officer after taking into account the recommendations of our Chief Executive Officer and taking into account such factors as salary norms in comparable companies and publicly available data regarding compensation increases in the industry, a subjective assessment of the nature of each position and an annual review of the contribution and experience of each executive officer. For the Chief Executive Officer, the Compensation Committee considered substantially the same sort of information, as well as the size of the company and the Chief Executive Officer's stock ownership, and determined to increase the base salary of the Chief Executive Officer. Based upon its review, the Compensation Committee approved increases in base salaries for our executive officers set forth below. The base salary increases were comparable to the average percentage base salary increases granted to our employees generally.

	Principal Position	2013 Base Salary	2014 Base Salary	Base Salary % Change	
Charles Liang	President, Chief Executive Officer and Chairman of the Board	\$304,051	\$313,173	3.0	%
Howard Hideshima	Senior Vice President and Chief Financial Officer	\$270,153	\$280,956	4.0	%
Phidias Chou	Senior Vice President, Worldwide Sales	\$243,892	\$253,635	4.0	%
Yih-Shyan (Wally) Liaw	Senior Vice President, International Sales, Corporate Secretary and Director	\$194,456	\$202,216	4.0	%
Chiu-Chu (Sara) Liu Liang	Senior Vice President of Operations, Treasurer, and Director	\$188,952	\$196,505	4.0	%

**Quarterly Bonus.** Our cash bonus program seeks to motivate executive officers to work effectively to achieve our financial performance objectives and to reward them when such objectives are met. Quarterly bonuses for executive officers are subject to approval by the Committee. Bonuses are not awarded based upon any specific plan or formula, but are subjectively determined based upon our performance during the quarter and the individual's contributions. Historically these bonuses have ranged from zero to an amount equal to two weeks of base salary. For fiscal year 2014, other than the Chief Executive Officer, approximately half a week of base salary was granted to our executive officers.

**Equity-Based Incentive Compensation.** Stock options are an important component of the total compensation of executive officers. We believe that stock options align the interests of each executive with those of the shareholders. They also provide executive officers a significant, long-term interest in our success and help retain key executive officers in a competitive market for executive talent. Our 2006 Equity Incentive Plan authorizes the Compensation Committee to grant stock options to executive officers. The number of shares owned by, or subject to options held by, each executive officer is periodically reviewed and additional awards are considered based upon a generalized assessment of past performance of the executive and the relative holdings of other executive officers. The option grants generally utilize four-year vesting periods to encourage executive officers to continue contributing to us, and they generally expire no later than ten years from the date of grant.

In fiscal year 2014, the Compensation Committee approved grants of additional options to Mr. Chou, Mr. Liaw and Ms. Liang, as part of the Compensation Committee's review of all employee grant levels.

Stock Ownership Guidelines

We currently do not require our directors or executive officers to own a particular amount of our common stock. The Committee is satisfied that stock and option holdings among our directors and executive officers are sufficient at this time to provide motivation and to align this group's interests with those of our stockholders. Our insider trading policy prohibits any of our directors, executive officers, employees or contractors from engaging in any transactions in publicly-traded options, such as puts and calls, and other derivative securities, including any hedging or similar transaction, with respect to our common stock.

WEST\249206192.2

80

---

## Table of Contents

### Other Benefits

#### Health and Welfare Benefits

Our executive officers receive the same health and welfare benefits as are offered to our other employees, including medical, dental, vision, life, accidental death and dismemberment, disability, flexible spending accounts and holiday pay. The same contribution amounts, percentages and plan design provisions are applicable to all employees.

#### Retirement Program

Our executive officers may participate in the same tax-qualified, employee-funded 401(k) plan that is offered to all our other employees. We currently have no Supplemental Executive Retirement Plan, or SERP, obligations. We do not offer any defined benefit retirement plans to our executive officers.

#### Perquisites

We do not provide special benefits or other perquisites to any of our executive officers.

#### Employment Arrangements, Severance and Change of Control Benefits

We have not entered into employment agreements with any of our named executive officers. Mr. Hideshima, Mr. Chou and Ms. Liang have signed offer letters which provide for at-will employment. The offer letters provide for salary, stock options and right to participate in our employee benefit plans. We do not have any written employment arrangements with Messrs. Liang and Liaw. We do not have any arrangements with any of our executive officers that provide for any severance benefits in the event of termination or change of control.

#### Tax and Accounting Treatment of Compensation

In our review and establishment of compensation programs and payments, we consider, but do not place great emphasis on, the anticipated accounting and tax treatment of our compensation programs on us and our executive officers. While we may consider accounting and tax treatment, these factors alone are not dispositive. Among other factors that receive greater consideration are the net costs to us and our ability to effectively administer executive compensation in the short and long-term interests of stockholders under a proposed compensation arrangement.

We monitor whether it might be in our best interest to comply with Section 162(m) of the Code, but reserve the right to award future compensation which would not comply with the Section 162(m) requirements for non-deductibility if the Committee concludes that it is in the Company's best interest to do so. We seek to maintain flexibility in compensating executive officers in a manner designed to promote varying corporate goals and therefore the Committee has not adopted a policy requiring all compensation to be deductible.

The Committee will continue to assess the impact of Section 162(m) on its compensation practices and determine what further action, if any, is appropriate.

We account for equity compensation paid to our employees in accordance with Accounting Standards Codification Topic 718, Stock Compensation ("ASC Topic 718"), which requires us to estimate and record expenses for each award of equity compensation over the service period of the award.



We intend that our plans, arrangements and agreements will be structured and administered in a manner that complies with the requirements of Section 409A of the Code. Participation in, and compensation paid under our plans, arrangements and agreements may, in certain instances, result in the deferral of compensation that is subject to the requirements of Section 409A. If our plans, arrangements and agreements as administered fail to meet certain requirements under Section 409A, compensation earned thereunder may be subject to immediate taxation and tax penalties.

#### Summary

The Committee believes that our compensation philosophy and programs are designed to foster a performance-oriented culture that aligns our executive officers' interests with those of our stockholders. The Committee also believes that the compensation of our executive officers is both appropriate and responsive to the goal of building stockholder value.

WEST\249206192.2

81

---

Table of Contents

Compensation Committee Report

The Committee has reviewed and discussed the Compensation Discussion and Analysis (“CD&A”) with the Company’s management. Based on this review and these discussions, the Committee recommended to the board of directors that the CD&A be included in this filing.

This report has been furnished by the Compensation Committee.

Sherman Tuan, Chair  
Hwei-Ming (Fred) Tsai

WEST\249206192.2

82

---

Table of Contents

## Summary Compensation Table

The following table sets forth information concerning the compensation earned during the fiscal years ended 2014, 2013 and 2012 by our Chief Executive Officer, our Chief Financial Officer, our three other most highly-compensated executive officers. We refer to these officers as our “named executive officers.”

## SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$)	Bonus (\$)(1)	Stock Awards (\$)	Option Awards (\$)(2)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)(3)	All Other Compensation (\$)(4)	Total (\$)
Charles Liang President, Chief Executive Officer and Chairman of the Board	2014	\$312,793	\$—	\$—	\$—	\$—	\$—	\$ 17,505	\$330,298
	2013	303,682	—	—	633,652	—	—	17,267	954,601
	2012	295,097	—	—	—	—	—	16,741	311,838
Howard Hideshima Senior Vice President and Chief Financial Officer	2014	286,173	2,593	—	—	—	—	9,839	298,605
	2013	271,325	—	—	258,090	—	—	5,273	534,688
	2012	263,624	—	—	—	—	—	7,730	271,354
Phidias Chou Senior Vice President, Worldwide Sales	2014	257,396	2,341	—	225,577	—	—	14,042	499,356
	2013	243,501	—	—	—	—	—	11,423	254,924
	2012	234,396	—	—	275,028	—	—	9,735	519,159
Yih-Shyan (Wally) Liaw Senior Vice President, International Sales, Corporate Secretary and Director	2014	206,122	1,867	—	202,899	—	—	11,196	422,084
	2013	194,070	—	—	—	—	—	10,930	205,000
	2012	185,160	—	—	209,562	—	—	10,402	405,124
Chiu-Chu (Sara) Liu Liang Senior Vice President of	2014	200,357	1,814	—	174,800	—	—	5,806	382,777
	2013	188,723	—	—	—	—	—	7,315	196,038
	2012	183,416	—	—	207,208	—	—	6,784	397,408

Operations,  
Treasurer and  
Director

- 
- (1) Amounts disclosed under “Bonus” reflect the cash bonuses earned by the named executive officers. The dollar amount reported in the Option Awards column represents the grant date fair value of each award calculated in accordance with FASB ASC Topic 718, excluding the estimates of service-based forfeiture and using (2) the Black Scholes option-pricing model. Assumptions used in the calculation of these amounts were included in Item 8, Financial Statements and Supplementary Data, and Note 10 of Notes to our audited Consolidated Financial Statements for the fiscal year 2014 included in our Annual Report on Form 10-K.
- (3) The Company does not have a defined benefit plan or a non-qualified deferred compensation plan.
- (4) Amount reflects vacation and sick pay.

WEST\249206192.2

83

---

Table of Contents

## Grants of Plan-Based Awards

The following table provides information concerning all plan-based awards granted during fiscal year 2014 to our named executive officers:

## GRANTS OF PLAN-BASED AWARDS

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards \$(1)
		Threshold (\$)	Target (\$)	Maximum (\$)				
Phidias Chou	10/21/2013	—	—	—	—	17,227	(2) \$14.23	\$114,295
Phidias Chou	10/21/2013	—	—	—	—	16,773	(3) 14.23	111,282
Yih-Shyan (Wally) Liaw	4/21/2014	—	—	—	—	15,458	(4) 18.93	136,366
Yih-Shyan (Wally) Liaw	4/21/2014	—	—	—	—	7,542	(5) 18.93	66,533
Chiu-Chu (Sara) Liu Liang	1/20/2014	—	—	—	—	23,000	(6) 17.96	174,800

(1) Represents the fair value of each stock option and award as of the date of grant, computed in accordance with ASC Topic 718.

(2) These incentive stock options vest at the rate of 25% on September 13, 2014 and 1/16th per quarter thereafter, such that the shares will be fully vested on September 13, 2017.

(3) These non-qualified stock options vest at the rate of 25% on September 13, 2014 and 1/16th per quarter thereafter, such that the shares will be fully vested on September 13, 2017.

(4) These non-qualified stock options vest at the rate of 25% on March 30, 2015 and 1/16th per quarter thereafter, such that the shares will be fully vested on March 30, 2018.

(5) These incentive stock options vest at the rate of 25% on March 30, 2015 and 1/16th per quarter thereafter, such that the shares will be fully vested on March 30, 2018.

(6) These non-qualified stock options vest at the rate of 25% on December 12, 2014 and 1/16th per quarter thereafter, such that the shares will be fully vested on December 12, 2017.

Table of Contents

## Outstanding Equity Awards at Fiscal Year-End 2014

The following table provides information concerning the outstanding equity-based awards as of June 30, 2014, and the option exercise price and expiration dates for each award, held by each of our named executive officers.

Name	Option Awards					Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable		Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of shares or units of stock that have not vested (#)	Market value of shares or units of stock that have not vested (\$)(1)
Charles Liang	150,000	(2)	—	\$ 3.08	12/28/2014	179,641	\$4,539,528
	720,000	(3)	—	\$ 10.66	3/4/2019		
	99,000	(4)	33,000	(4) \$ 18.59	4/25/2021		
	86,722	(5)	231,260	(5) \$ 20.70	1/21/2023		
Howard Hideshima	19,198	(6)	—	\$ 13.89	11/17/2016		
	110,802	(6)	—	\$ 13.89	11/17/2016		
	32,500	(7)	—	\$ 10.19	4/26/2017		
	56,614	(8)	—	\$ 13.61	8/2/2020		
	10,886	(8)	—	\$ 13.61	8/2/2020		
	18,904	(9)	18,906	(9) \$ 12.50	8/6/2022		
	4,344	(9)	4,346	(9) \$ 12.50	8/6/2022		
Phidias Chou	9,000	(10)	—	\$ 3.25	9/30/2015		
	22,500	(11)	—	\$ 5.53	4/29/2019		
	31,030	(12)	—	\$ 8.36	10/26/2019		
	18,970	(12)	—	\$ 8.36	10/26/2019		
	4,227	(13)	1,923	(13) \$ 15.22	10/24/2021		
	22,583	(13)	10,267	(13) \$ 15.22	10/24/2021		
	—		17,227	(14) \$ 14.23	10/21/2023		
	—		16,773	(14) \$ 14.23	10/21/2023		
Yih-Shyan (Wally) Liaw	30,635	(15)	—	\$ 7.46	4/28/2018		
	30,275	(15)	—	\$ 7.46	4/28/2018		
	9,449	(16)	630	(16) \$ 13.61	8/2/2020		
	7,191	(16)	480	(16) \$ 13.61	8/2/2020		
	10,300	(17)	8,013	(17) \$ 17.29	4/23/2022		
	4,886	(17)	3,801	(17) \$ 17.29	4/23/2022		
	—		15,458	(18) \$ 18.93	4/21/2024		
—		7,542	(18) \$ 18.93	4/21/2024			
Chiu-Chu (Sara) Liu Liang	64,800	(19)	—	\$ 3.50	12/30/2015		
	20,300	(11)	—	\$ 5.53	4/29/2019		
	19,615	(20)	—	\$ 11.81	1/25/2020		
	20,985	(20)	—	\$ 11.81	1/25/2020		
	18,125	(21)	10,875	(21) \$ 17.09	1/23/2022		
	—		23,000	(22) \$ 17.96	1/20/2024		

- 
- (1) Market value based upon the closing price of our common stock of \$25.27 on June 30, 2014 multiplied by the number of restricted stock awards.
  - (2) Options vested at the rate of 25% on November 1, 2005 and 1/16th per quarter thereafter, such that the shares were fully vested on November 1, 2008.
  - (3) Options vested at the rate of 25% on November 1, 2009 and 1/16th per quarter thereafter, such that the shares were fully vested on November 1, 2012.
  - (4) Options vested at the rate of 25% on April 25, 2012 and 1/16th per quarter thereafter, such that the shares will be fully vested on April 25, 2015.

WEST\249206192.2

85

---

Table of Contents

- (5) Options vested at the rate of 25% on November 1, 2013 and 1/16th per quarter thereafter, such that the shares will be fully vested on November 1, 2016.
- (6) Options vested at the rate of 25% on May 8, 2007 and 1/16th per quarter thereafter, such that the shares were fully vested on May 8, 2010.
- (7) Options vested at the rate of 25% on April 26, 2008 and 1/16th per quarter thereafter, such that the shares were fully vested on April 26, 2011.
- (8) Options vested at the rate of 25% on May 8, 2011 and 1/16th per quarter thereafter, such that the shares were fully vested on May 8, 2014.
- (9) Options vested at the rate of 25% on May 7, 2013 and 1/16th per quarter thereafter, such that the shares will be fully vested on May 7, 2016.
- (10) Options vested at the rate of 25% on July 1, 2006 and 1/16th per quarter thereafter, such that the shares were fully vested on July 1, 2009.
- (11) Options vested at the rate of 25% on April 29, 2010 and 1/16th per quarter thereafter, such that the shares were fully vested on April 29, 2013.
- (12) Options vested at the rate of 25% on July 1, 2010 and 1/16th per quarter thereafter, such that the shares were fully vested on July 1, 2013.
- (13) Options vested at the rate of 25% on July 1, 2012 and 1/16th per quarter thereafter, such that the shares will be fully vested on July 1, 2015.
- (14) Options vest at the rate of 25% on September 13, 2014 and 1/16th per quarter thereafter, such that the shares will be fully vested on September 13, 2017.
- (15) Options vested at the rate of 25% on March 30, 2009 and 1/16th per quarter thereafter, such that the shares were fully vested on March 30, 2012.
- (16) Options vested at the rate of 25% on August 2, 2011 and 1/16th per quarter thereafter, such that the shares will be fully vested on August 2, 2014.
- (17) Options vested at the rate of 25% on March 29, 2013 and 1/16th per quarter thereafter, such that the shares will be fully vested on March 29, 2016.
- (18) Options vest at the rate of 25% on March 30, 2015 and 1/16th per quarter thereafter, such that the shares will be fully vested on March 30, 2018.
- (19) Options vested at the rate of 25% on December 12, 2006 and 1/16th per quarter thereafter, such that the shares were fully vested on December 12, 2009.
- (20) Options vested at the rate of 25% on December 12, 2010 and 1/16th per quarter thereafter, such that the shares were fully vested on December 12, 2013.
- (21) Options vested at the rate of 25% on December 12, 2012 and 1/16th per quarter thereafter, such that the shares will be fully vested on December 12, 2015.
- (22) Options vest at the rate of 25% on December 14, 2014 and 1/16th per quarter thereafter, such that the shares will be fully vested on December 14, 2017.

Option Exercises and Stock Vested During Fiscal Year 2014

The following table sets forth the dollar amounts realized pursuant to the exercise or vesting of equity-based awards by our named executive officers during fiscal year 2014.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise (\$)(1)	Number of Shares Acquired on Vesting	Value Realized on Vesting (\$)(2)
Charles Liang	450,000	\$ 6,786,500	179,641	\$ 2,337,129
Howard Hideshima	13,001	\$ 195,300	—	\$ —
Phidias Chou	10,000	\$ 108,572	—	\$ —
Yih-Shyan (Wally) Liaw	30,000	\$ 549,354	—	\$ —



Chiu-Chu (Sara) Liu Liang                      —                      \$ —                      —                      \$ —

---

(1) Based on the difference between the closing price of our common stock on the date of exercise and the exercise price.

(2) The value is the closing price of our common stock on the date of vesting, multiplied by the number of shares vested.

WEST\249206192.2

86

Table of Contents

## Director Compensation

Under our director compensation policy, we reimburse non-employee directors for reasonable expenses in connection with attendance at board and committee meetings. Our non-employee directors receive an annual retainer of \$40,000, payable quarterly. In addition, the Chairperson of our Audit Committee receives an annual retainer of \$25,000, the Chairperson of each of our Compensation Committee and Nominating and Corporate Governance Committee receives an annual retainer of \$5,000 and each director serving in a non-chairperson capacity on our standing board committees receives an annual retainer of \$2,500 per committee, payable quarterly.

Non-employee directors also are eligible to receive stock options under our 2006 Equity Incentive Plan. Non-employee directors receive nondiscretionary, automatic grants of nonstatutory stock options under our 2006 Equity Incentive Plan. A non-employee director is automatically granted an initial option to purchase 18,000 shares upon first becoming a member of our board of directors. A non-employee director serving as Chairperson of the Audit Committee receives an initial grant of an option to purchase 12,000 shares. Non-employee directors serving as Chairperson of the Compensation or Nominating and Corporate Governance Committees receive an initial grant of an option to purchase 2,000 shares. Each of these initial options vests and becomes exercisable over four years, with the first 25% of the shares subject to each initial option vesting on the first anniversary of the date of grant and the remainder vesting quarterly thereafter. Immediately after each of our annual meetings of stockholders, each non-employee director is automatically granted an option to purchase 4,500 shares of our common stock, the Audit Committee Chairperson is granted an annual option to purchase 3,000 shares of our common stock and the Chairperson of each of the Compensation and Nominating and Corporate Governance Committees is granted an annual option to purchase 500 shares of our common stock. These options will vest and become exercisable on the first anniversary of the date of grant or immediately prior to our annual meeting of stockholders, if earlier.

The options granted to non-employee directors have a per share exercise price equal to 100% of the fair market value of the underlying shares on the date of grant, and will become fully vested if we are subject to a change of control. Annual grants will be reduced proportionally if the person did not serve for the full year after the annual grant.

The following table shows for the fiscal year ended June 30, 2014 certain information with respect to the compensation of all of our non-employee directors:

## DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash (\$)(1)	Stock Awards (\$)	Option Awards (\$)(2)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Non-qualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Gregory K. Hinckley	\$65,000	—	\$70,551	—	—	—	\$135,551
Hwei-Ming (Fred) Tsai	\$50,000	—	\$47,034	—	—	—	\$97,034
Laura Black	\$42,500	—	\$42,330	—	—	—	\$84,830
Sherman Tuan	\$47,500	—	\$47,034	—	—	—	\$94,534

---

(1)

Edgar Filing: Super Micro Computer, Inc. - Form 10-K

This column represents annual director fees, non-employee committee chairman fees and other committee member fees earned in fiscal year 2014.

The dollar amount in this column represents the grant date fair value of each award calculated in accordance with FASB ASC Topic 718, excluding the estimates of service-based forfeiture and using the Black Scholes (2) option-pricing model. Assumptions used in the calculation of these amounts were included in Item 8, Financial Statements and Supplementary Data, and Note 10 of Notes to our audited Consolidated Financial Statements for the fiscal year 2014 included in our Annual Report on Form 10-K.

The table below sets forth the aggregate number of option awards held by our non-employee directors as of June 30, 2014.

Name	Option Awards
Gregory K. Hinckley	63,000
Hwei-Ming (Fred) Tsai	60,000
Laura Black	27,000
Sherman Tuan	54,500

WEST\249206192.2

87

Table of Contents

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

## Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information known to us regarding beneficial ownership of our common stock as of August 31, 2014 by:

- each of the named executive officers;
- each of our directors;
- all directors and executive officers as a group; and
- all person known to us beneficially own 5% or more of our outstanding common stock.

Name and Address of Beneficial Owner(1)	Amount and Nature of Beneficial Ownership(2)	Percent of Common Stock Outstanding(3)	
Executive Officers and Directors:			
Charles Liang(4)	9,082,994	19.4	%
Howard Hideshima(5)	246,154	*	
Phidias Chou(5)	121,685	*	
Chiu-Chu (Sara) Liang(6)	9,082,994	19.4	%
Yih-Shyan (Wally) Liaw(7)	2,249,093	4.9	%
Gregory K. Hinckley(5)	750	*	
Hwei-Ming (Fred) Tsai(8)	351,000	*	
Laura Black(5)	15,750	*	
Sherman Tuan(5)	49,500	*	
All directors and executive officers as a group (9 persons)(9)	12,116,926	25.5	%
5% Holder Not Listed Above:			
FMR LLC(10)	6,390,039	14.0	%

\*Represents beneficial ownership of less than one percent of the outstanding shares of common stock

Except as otherwise indicated, to our knowledge the persons named in this table have sole voting and investment (1) power with respect to all shares of Common Stock shown as beneficially owned by them, subject to community property laws applicable and to the information contained in the footnotes to this table.

(2) Under the SEC rules, a person is deemed to be the beneficial owner of shares that can be acquired by such person within 60 days upon the exercise of options.

(3) Calculated on the basis of 45,675,186 shares of common stock outstanding as of August 31, 2014, provided that any additional shares of Common Stock that a stockholder has the right to acquire within 60 days after August 31, 2014 are deemed to be outstanding for the purposes of calculating that stockholder's percentage of beneficial ownership.

(4) Includes 1,086,676 shares issuable upon the exercise of options exercisable within 60 days after August 31, 2014. Also includes 3,284,468 shares jointly held by Mr. Liang and his spouse, 600,000 shares of which are pledged as security for a personal credit line, 850,000 shares held by Mr. Liang which are pledged as security for a personal credit line, 15,000 shares held by Green Earth Charitable Trust, for which Mrs. Liang serves as trustee, 6,100 shares held by Mr. Liang's daughter, 24,400 shares held by Mr. Liang's children, for which Mrs. Liang serves as custodian, 495,620 shares held directly by Mrs. Liang and 145,637 shares issuable upon the exercise of options held by Mrs. Liang and exercisable within 60 days after August 31, 2014. See footnote 6.

(5)

Edgar Filing: Super Micro Computer, Inc. - Form 10-K

Consists of shares issuable upon the exercise of options exercisable within 60 days after August 31, 2014.

Includes 145,637 shares issuable upon the exercise of options exercisable within 60 days after August 31, 2014.

Also includes 3,284,468 shares jointly held by Mr. Liang and his spouse, 600,000 shares of which are pledged as security for a personal credit line, 15,000 shares held by Green Earth Charitable Trust, 6,100 shares held by

(6) Mrs. Liang's daughter, 24,400 shares held by Mrs. Liang's children, for which Mrs. Liang serves as custodian, 4,025,093 shares held by Charles Liang, Mrs. Liang's spouse, 450,000 shares of which are pledged as security for a personal credit line, and 1,086,676 shares issuable upon the exercise of options held by Mr. Liang and exercisable within 60 days after August 31, 2014. See footnote 4.

Includes 95,534 shares issuable upon the exercise of options exercisable within 60 days after August 31, 2014.

(7) 2,056,416 shares held by Liaw Family Trust, for which Mr. Liaw and his spouse serve as trustees, 17,760 shares held

WEST\249206192.2

88

---

Table of Contents

by Mr. Liaw's daughters, 68,177 shares held by Mrs. Liaw, and 11,206 shares issuable upon the exercise of options granted to Mrs. Liaw, exercisable within 60 days after August 31, 2014.

(8) Includes 55,000 shares issuable upon the exercise of options exercisable within 60 days after August 31, 2014.

(9) Includes 1,827,892 shares issuable upon the exercise of options exercisable within 60 days after August 31, 2014.

The information with respect to the holdings of FMR LLC ("FMR") is based solely on Schedule 13G/A filed

(10) February 13, 2014 by FMR. FMR has the sole power to vote and dispose of all of such shares. The address for FMR is 82 Devonshire Street, Boston, Massachusetts 02109.

Equity Compensation Plan Information

We currently maintain two compensation plans that provide for the issuance of our Common Stock to officers and other employees, directors and consultants. These consist of the 1998 Stock Option Plan and the 2006 Equity Incentive Plan, both of which have been approved by our stockholders. We no longer grant any options under the 1998 Stock Option Plan. The following table sets forth information regarding outstanding options and shares reserved and remaining available for future issuance under the foregoing plans as of June 30, 2014:

Plan Category	Number of shares to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of shares remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a)) (c)	
Equity compensation plans approved by stockholders	10,905,602	\$ 12.24	341,617	(1)
Equity compensation plans not approved by stockholders	—	—	—	
Total	10,905,602	\$ 12.24	341,617	

(1) The number of shares that are reserved for issuance under the 2006 Equity Incentive Plan are automatically increased on July 1 of each year through 2016 by a number of shares equal to the smaller of (a) 3% of our outstanding shares as of the close of business on the immediately preceding June 30 or (b) a lesser amount determined by the board of directors.

Item 13. Certain Relationships and Related Transactions and Director Independence

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Procedures for Approval of Related Person Transactions

Pursuant to our Audit Committee charter, the Audit Committee has the responsibility for the review, approval or ratification of any related person transactions; provided that if the matter or transaction involves employment or compensation terms for services to our company, including retention or payment provisions relating to expert services, then it is presented to the Compensation Committee. In approving or rejecting a proposed transaction, our Audit Committee will consider the relevant facts and circumstances available and deemed relevant, including, but not limited to the risks, costs and benefits to us, the terms of the transaction, the availability of other sources for comparable services or products, and, if applicable, the impact on a director's independence. Our Audit Committee

shall approve only those transactions that, in light of known circumstances are not inconsistent with the Company's best interests, as the Audit Committee determines in the good faith exercise of its discretion. In addition, we annually require each of our directors and executive officers to complete a directors' and officers' questionnaire that elicits information about related party transactions as such term is defined by SEC rules and regulations. These procedures are intended to determine whether any such related party transaction impairs the independence of a director or presents a conflict of interest on the part of a director, employee or officer.

WEST\249206192.2

89

---

Table of Contents

Transactions with Related Parties, Promoters and Certain Control Persons

Director and Officer Indemnification

We have entered into agreements to indemnify our directors and executive officers to the fullest extent permitted under Delaware law. In addition, our certificate of incorporation contains provisions limiting the liability of our directors and our bylaws contain provisions requiring us to indemnify our officers and directors.

Stock Option Awards

Please see the “Grants of Plan-Based Awards” table and the “Director Compensation” table above for information on stock option grants to our directors and named executive officers in fiscal year 2014.

Transactions with Ablecom Technology Inc.

Ablecom Technology Inc.—Ablecom, a Taiwan corporation, together with one of its subsidiaries, Compuware (collectively “Ablecom”), is one of our 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, our President, Chief Executive Officer and Chairman of the Board of Directors, and owns approximately 1.0% of our common stock. Charles Liang served as a Director of Ablecom during our fiscal 2006, but is no longer serving in such capacity. In addition, Charles Liang and his wife, also an officer of us, collectively own approximately 10.5% of Ablecom, while Steve Liang and other family members own approximately 35.9% of Ablecom at June 30, 2014 and 2013.

We have 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, we outsource a portion of our design activities and a significant part of our manufacturing of components such as server chassis to Ablecom. Ablecom agrees to design products according to our specifications. Additionally, Ablecom agrees to build the tools needed to manufacture the products. We have 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 us for distribution in Taiwan. We believe that the pricing and terms under the distribution agreement are similar to the pricing and terms of distribution arrangements we have with similar, third party distributors.

Ablecom’s net sales to us and its net sales of our products to others comprise a substantial majority of Ablecom’s net sales. For fiscal year 2014, 2013 and 2012, we purchased products from Ablecom totaling \$201,848,000, \$179,735,000 and \$168,744,000, respectively. For fiscal year 2014, 2013 and 2012, we sold products to Ablecom totaling \$14,576,000, \$13,805,000 and \$12,229,000, respectively.

Amounts owed to us by Ablecom as of June 30, 2014 and 2013, were \$621,000 and \$974,000, respectively. Amounts owed to Ablecom by us as of June 30, 2014 and 2013, were \$48,969,000 and \$50,448,000, respectively. In fiscal year 2014, we have paid Ablecom the majority of invoiced dollars between 63 and 98 days of invoice. For the years ended June 30, 2014, 2013 and 2012, we paid \$6,906,000, \$5,076,000 and \$5,042,000, respectively, for tooling assets and miscellaneous costs to Ablecom.



Our exposure to loss as a result of our involvement with Ablecom is limited to (a) potential losses on our purchase orders in the event of an unforeseen decline in the market price and/or demand of our products such that we incur 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 us. Outstanding purchase orders with Ablecom were \$64,464,000 and \$53,684,000 at June 30, 2014 and 2013, respectively, representing the maximum exposure to loss relating to (a) above. We do not have any direct or indirect guarantees of losses of 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 their 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

WEST\249206192.2

90

---

Table of Contents

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. The accounts of the Management Company are consolidated with the accounts of us, and a noncontrolling interest has been recorded for the Ablecom's interests in the net assets and operations of the Management Company. The Management Company had no business operations as of June 30, 2012. In fiscal year 2014 and 2013, \$(6,000) and \$13,000 of net income (loss) attributable to Ablecom's interest was included in our general and administrative expenses in the consolidated statements of operations.

## Item 14. Principal Accounting Fees and Services

The Audit Committee appointed Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year 2014.

## Independent Registered Public Accounting Firm Fees and Services

The following table sets forth the aggregate audit fees billed to us by our independent registered public accounting firm, Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, "Deloitte"), and fees paid to Deloitte for services in the fee categories indicated below during the fiscal years 2014 and 2013. The Audit Committee has considered the scope and fee arrangements for all services provided by Deloitte, taking into account whether the provision of non-audit services is compatible with maintaining Deloitte's independence, and has pre-approved 100% of the services described below.

	Fiscal Year Ended 6/30/14	Fiscal Year Ended 6/30/13
Audit Fees(1)	\$1,501,000	\$1,446,000
Audit-Related Fees	—	—
Tax Fees	—	—
All Other Fees	—	—
Total	\$1,501,000	\$1,446,000

(1) Audit fees consist of the aggregate fees for professional services rendered for the audit of our fiscal 2014 and 2013 consolidated financial statements, review of interim consolidated financial statements and certain statutory audits.

## Audit Committee Pre-Approval Policies and Procedures

The Audit Committee has determined that all services performed by Deloitte & Touche LLP are compatible with maintaining the independence of Deloitte & Touche LLP. The Audit Committee's policy on approval of services performed by the independent registered public accounting firm is to pre-approve all audit and permissible non-audit services to be provided by the independent registered public accounting firm during the fiscal year. The Audit Committee reviews each non-audit service to be provided and assesses the impact of the service on the firm's independence.

Table of Contents

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. Financial Statements

See Index to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K, which is incorporated herein by reference.

2. Financial Statement Schedules

All financial statement schedules have been omitted because they are either not applicable or the required information is shown in the consolidated financial statements or notes thereto.

3. Exhibits

See the Exhibit Index which follows the signature page of this Annual Report on Form 10-K, which is incorporated herein by reference.

(b) Exhibits

See Item 15(a)(3) above.

(c) Financial Statement Schedules

See Item 15(a)(2) above.

WEST\249206192.2

92

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SUPER MICRO COMPUTER, INC.

Date: September 15, 2014

/s/ CHARLES LIANG  
Charles Liang  
President, Chief Executive Officer and Chairman of the  
Board  
(Principal Executive Officer)

WEST\249206192.2

93

---

Table of Contents

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Charles Liang and Howard Hideshima, jointly and severally, his attorney-in-fact, each with the full power of substitution, for such person, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might do or could do in person hereby ratifying and confirming all that each of said attorneys-in-fact and agents, or his substitute, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated and on the dates indicated.

Signature	Title	Date
/s/ CHARLES LIANG Charles Liang	President, Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	September 15, 2014
/s/ HOWARD HIDESHIMA Howard Hideshima	Senior Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)	September 15, 2014
/s/ YIH-SHYAN (WALLY) LIAW Yih-Shyan (Wally) Liaw	Senior Vice President of International Sales, Corporate Secretary and Director	September 15, 2014
/s/ CHIU-CHU (SARA) LIU LIANG Chiu-Chu (Sara) Liu Liang	Senior Vice President of Operations, Treasurer and Director	September 15, 2014
/s/ GREGORY K. HINCKLEY Gregory K. Hinckley	Director	September 15, 2014
/s/ HWEI-MING (FRED) TSAI Hwei-Ming (Fred) Tsai	Director	September 15, 2014
/s/ LAURA BLACK Laura Black	Director	September 15, 2014
/s/ SHERMAN TUAN Sherman Tuan	Director	September 15, 2014

WEST\249206192.2

94

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description
3.3	Amended and Restated Certificate of Incorporation of Super Micro Computer, Inc.(1)
3.4	Amended and Restated Bylaws of Super Micro Computer, Inc.(1)
4.1	Specimen stock certificate for shares of common stock of Super Micro Computer, Inc.(1)
10.1*	1998 Stock Option Plan, as amended(1)
10.2*	Form of Incentive Stock Option Agreement under 1998 Stock Option Plan(1)
10.3*	Form of Nonstatutory Stock Option Agreement under 1998 Stock Option Plan(1)
10.4*	Form of Nonstatutory Stock Option Agreement outside the 1998 Stock Option Plan(1)
10.5*	2006 Equity Incentive Plan(1)
10.6*	Form of Option Agreement under Super Micro Computer, Inc. 2006 Equity Incentive Plan(1)
10.7*	Form of Restricted Stock Agreement under Super Micro Computer, Inc. 2006 Equity Incentive Plan(1)
10.8*	Form of Restricted Stock Unit Agreement under Super Micro Computer, Inc. 2006 Equity Incentive Plan(1)
10.9*	Form of directors' and officers' Indemnity Agreement(1)
10.10*	Offer Letter for Chiu-Chu (Sara) Liu Liang(1)
10.11*	Offer Letter for Alex Hsu(1)
10.12*	Offer Letter for Howard Hideshima(1)
10.13*	Director Compensation Policy(1)
10.14	Product Manufacturing Agreement dated January 8, 2007 between Super Micro Computer, Inc. and Ablecom Technology Inc.(1)
10.15*	Form of Notice of Grant of Stock Option under 2006 Equity Incentive Plan(2)
10.16*	Form of Notice of Grant of Restricted Stock under 2006 Equity Incentive Plan(2)
10.17*	Form of Notice of Grant of Restricted Stock Unit under 2006 Equity Incentive Plan(2)
10.18	Agreement of Purchase and Sale(3)
10.19*	Stock Option Exercise Notice and Restricted Stock Purchase Agreement—Charles Liang(4)
10.20*	Stock Option Exercise Notice and Restricted Stock Purchase Agreement—Chiu-Chu Liang(5)
10.21*	Stock Option Exercise Notice and Restricted Stock Purchase Agreement—Shiow-Meei Liaw(5)
10.22	Agreement of Purchase and Sale of Properties on Fox Lane and Fox Drive, San Jose, California(6)
10.23	Business Loan Agreement dated as of June 17, 2010, by and between Super Micro Computer, Inc. and Bank of America(7)
10.24	Amendment No.1 to Loan Agreement, dated August 15, 2011 between Super Micro Computer, Inc. and Bank of America (9)
10.25	Amendment No. 2 to Loan Agreement, dated October 4, 2011 between Super Micro Computer, Inc. and Bank of America (9)
10.26*	2006 Equity Incentive Plan, as amended(8)
10.27	Purchase and Sale Agreement on Ridder Park Drive, San Jose, California (10)
10.28	Addendum 1 to Purchase and Sale Agreement on Ridder Park Drive, San Jose, California (10)
10.29	Amendment No. 3 to Loan Agreement, dated September 30, 2013 between Super Micro Computer, Inc. and Bank of America (11)
10.30	Summary of Credit Facility, dated November 5, 2013 between Super Micro Computer, Inc. and CTBC Bank (11)
21.1+	Subsidiaries of Super Micro Computer, Inc.
23.1+	Consent of Independent Registered Public Accounting Firm
24.1+	Power of Attorney (included in signature pages)
31.1+	Certification of Charles Liang, President and CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2+

Certification of Howard Hideshima, CFO and Secretary Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

---

Table of Contents

32.1+	Certification of Charles Liang, President and CEO Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(12)
32.2+	Certification of Howard Hideshima, CFO and Secretary Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (12)
101.INS+	XBRL Instance Document
101.SCH+	XBRL Taxonomy Extension Schema Document
101.CAL+	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF+	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB+	XBRL Taxonomy Extension Label Linkbase Document
101.PRE+	XBRL Taxonomy Extension Presentation Linkbase Document

---

+Filed herewith

Incorporated by reference to the same number exhibit filed with the Registrant’s Registration Statement on Form (1)S-1 (Registration No. 333-138370), declared effective by the Securities and Exchange Commission on March 28, 2007.

(2) Incorporated by reference to the Company’s Registration Statement on Form S-8 (Commission File No. 333-142404) filed with the Securities and Exchange Commission on April 27, 2007.

(3) Incorporated by reference to Exhibit 10.1 from the Company’s current report on Form 8-K (Commission File No. 001-33383) filed with the Securities and Exchange Commission on June 29, 2007.

(4) Incorporated by reference to the Company’s Annual Report on Form 10-K (Commission File No. 001-33383) filed with the Securities and Exchange Commission on September 2, 2008.

(5) Incorporated by reference to the Company’s current report on Form 8-K (Commission File No. 001-33383) filed with the Securities and Exchange Commission on December 2, 2008.

(6) Incorporated by reference to the Company’s Quarterly Report on Form 10-Q (Commission File No. 001-33383) filed with the Securities and Exchange Commission on May 7, 2010.

(7) Incorporated by reference to Exhibit 10.34 from the Company’s Annual Report on Form 10-K (Commission File No. 001-33383) filed with the Securities and Exchange Commission on September 7, 2010.

(8) Incorporated by reference to Appendix A from the Company’s Definitive Proxy Statement on Schedule 14A (Commission File No. 001-33383) filed with the Securities and Exchange Commission on January 18, 2011.

(9) Incorporated by reference to the Company's Quarterly Report on Form 10-Q (Commission File No. 001-33383) filed with the Securities and Exchange Commission on November 7, 2011.

(10) Incorporated by reference to the Company's current report on Form 8-K (Commission File No. 001-33383) filed with the Securities and Exchange Commission on September 24, 2013.

(11) Incorporated by reference to the Company’s Quarterly Report on Form 10-Q (Commission File No. 001-33383) filed with the Securities and Exchange Commission on November 7, 2013.

The certifications attached as Exhibit 32.1 and 32.2 accompany the Annual Report on Form 10-K pursuant to (12)Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed “filed” by Super Micro Computer, Inc. for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

\*Management contract, or compensatory plan or arrangement