

ALTERA CORP
Form 10-Q
August 10, 2004
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 2, 2004

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 0-16617

ALTERA CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of

77-0016691
(I.R.S. Employer

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incorporation or organization)

Identification Number)

101 INNOVATION DRIVE

SAN JOSE, CALIFORNIA 95134

(Address of principal executive offices)(zip code)

408-544-7000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of common stock outstanding at July 30, 2004: 371,742,658

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PART I FINANCIAL INFORMATION

ITEM 1: Financial Statements

ALTERA CORPORATION**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited, in thousands)

	July 2, 2004	January 2, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 458,717	\$ 258,831
Short-term investments	620,325	773,059
	<u>1,079,042</u>	<u>1,031,890</u>
Total cash, cash equivalents, and short-term investments	1,079,042	1,031,890
Accounts receivable, net	132,554	87,204
Inventories	50,245	44,583
Deferred income taxes	84,047	79,615
Other current assets	47,225	33,711
	<u>1,393,113</u>	<u>1,277,003</u>
Total current assets	1,393,113	1,277,003
Long-term investments		14,451
Property and equipment, net	157,283	160,924
Deferred income taxes and other assets, net	41,157	42,199
	<u>\$ 1,591,553</u>	<u>\$ 1,494,577</u>
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 58,217	\$ 20,992
Accrued liabilities	24,860	22,733
Accrued compensation	37,280	35,507
Deferred income and allowances on sales to distributors	269,257	245,421
Income taxes payable	68,113	67,520
	<u>457,727</u>	<u>392,173</u>
Total current liabilities	457,727	392,173
Stockholders' equity:		
Common stock	373	376
Capital in excess of par value	357,254	365,583
Retained earnings	777,249	738,420
Deferred stock-based compensation	(553)	(2,665)
Accumulated other comprehensive (loss) income	(497)	690

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Total stockholders' equity	<u>1,133,826</u>	<u>1,102,404</u>
	<u>\$ 1,591,553</u>	<u>\$ 1,494,577</u>

See accompanying notes to condensed consolidated financial statements.

Table of Contents**ALTERA CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(In thousands, except per share amounts)****(Unaudited)**

	Three Months Ended		Six Months Ended	
	July 2, 2004	July 4, 2003	July 2, 2004	July 4, 2003
Net sales	\$ 268,972	\$ 205,259	\$ 511,880	\$ 400,335
Costs and expenses:				
Cost of sales	81,026	65,424	156,867	129,682
Research and development expenses	42,738	46,105	85,320	96,293
Selling, general, and administrative expenses	52,712	45,594	102,590	89,797
Total costs and expenses	176,476	157,123	344,777	315,772
Income from operations	92,496	48,136	167,103	84,563
Interest and other income, net	3,272	1,314	7,008	6,150
Income before income taxes	95,768	49,450	174,111	90,713
Provision for income taxes	(20,459)	(13,352)	(40,045)	(24,493)
Net income	\$ 75,309	\$ 36,098	\$ 134,066	\$ 66,220
Income per share:				
Basic	\$ 0.20	\$ 0.09	\$ 0.36	\$ 0.17
Diluted	\$ 0.20	\$ 0.09	\$ 0.35	\$ 0.17
Shares used in computing per share amounts:				
Basic	373,696	382,725	374,723	382,698
Diluted	382,819	390,902	384,314	389,594

See accompanying notes to condensed consolidated financial statements.

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	Six Months Ended	
	July 2, 2004	July 4, 2003
Cash Flows from Operating Activities:		
Net income	\$ 134,066	\$ 66,220
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,799	21,251
Amortization of deferred stock-based compensation	2,112	5,395
Deferred income tax (benefit) provision	(3,720)	4,999
Loss on securities		3,113
Tax benefit from stock plans	15,500	5,465
Changes in assets and liabilities:		
Accounts receivable	(45,350)	(22,405)
Inventories	(5,662)	10,145
Other assets	(13,904)	(664)
Accounts payable and accrued liabilities	41,125	13,505
Deferred income and allowances on sales to distributors	23,836	57,095
Income taxes payable	593	14,270
Cash provided by operating activities	165,395	178,389
Cash Flows from Investing Activities:		
Purchases of property and equipment	(9,960)	(6,713)
Purchases of available-for-sale investments	(70,298)	(307,186)
Proceeds from the maturity and sale of available-for-sale investments	188,569	374,505
Proceeds from the maturity of held-to-maturity investments	47,015	
Purchases of intangible assets	(1,766)	(750)
Cash provided by investing activities	153,560	59,856
Cash Flows from Financing Activities:		
Proceeds from issuance of common stock through various stock plans	21,465	17,629
Repurchases of common stock	(140,534)	(51,861)
Cash used for financing activities	(119,069)	(34,232)
Net increase in cash and cash equivalents	199,886	204,013
Cash and cash equivalents at beginning of period	258,831	255,397
Cash and cash equivalents at end of period	\$ 458,717	\$ 459,410

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Cash paid (received) during the period for:

Income taxes paid (refunded), net	\$ 27,368	\$ (4,170)
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See accompanying notes to condensed consolidated financial statements.

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ALTERA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Organization and Basis of Presentation:

The accompanying unaudited condensed consolidated financial statements of Altera Corporation and subsidiaries, referred to herein as we, us, or our, have been prepared by us in accordance with accounting principles generally accepted in the United States of America. This financial information reflects all adjustments which are, in the opinion of our management, of a normal recurring nature and necessary to present fairly the statements of financial position as of July 2, 2004, results of operations for the three and six months ended July 2, 2004 and July 4, 2003, and cash flows for the six months ended July 2, 2004 and July 4, 2003. The January 2, 2004 balance sheet was derived from our audited financial statements included in our 2003 Annual Report on Form 10-K. All significant intercompany transactions and balances have been eliminated.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 period. Actual results could differ from those estimates, and material effects on our operating results and financial position may result.

These condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended January 2, 2004 included in our Annual Report on Form 10-K, as filed on March 15, 2004 with the Securities and Exchange Commission, or SEC. The results of operations for the three and six months ended July 2, 2004 are not necessarily indicative of the results to be expected for any future periods.

Note 2 Balance Sheet Details:

Certain reclassifications have been made to prior period balances in order to conform to the current period's presentation. None of these reclassifications had an impact on our consolidated statements of income.

Inventories at July 2, 2004 and January 2, 2004 were comprised of the following (in thousands):

	July 2, 2004	January 2, 2004
	<u> </u>	<u> </u>
Raw materials and work in process	\$ 39,107	\$ 32,882

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Finished goods	11,138	11,701
Total inventories	<u>\$ 50,245</u>	<u>\$ 44,583</u>

We realized gross margin benefits of \$4.4 million for the three months ended July 2, 2004 and \$8.0 million for the six months ended July 2, 2004, resulting from the sale of inventory previously written down in 2001. These benefits were \$9.2 million and \$18.3 million for the three and six months ended July 4, 2003.

As of July 2, 2004, the book value of the inventory written down in 2001 was essentially zero while the cost basis was \$17.9 million. The cost was comprised of \$13.1 million of raw materials and work in process inventory and \$4.8 million of finished goods inventory.

We have entered into business arrangements with certain distributors to advance cash to defray their working capital costs associated with servicing our end customers. These arrangements are set forth in legal agreements and these advances are unsecured, bear no interest and are due upon demand. These advances consist of two components. The first component is an advance of anticipated price discounts and is included as a component of deferred income and allowances on sales to distributors. Such advance totaled \$54.7

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million at July 2, 2004 and \$29.1 million at January 2, 2004. The second component is, in substance, an arrangement to finance distributors accounts receivable and inventory and is classified as other current assets and totaled \$29.4 million at July 2, 2004 and \$20.6 million at January 2, 2004.

Property and equipment at July 2, 2004 and January 2, 2004 were comprised of the following (in thousands):

	July 2, 2004	January 2, 2004
	<u> </u>	<u> </u>
Land	\$ 30,779	\$ 30,779
Buildings		