

ALTERA CORP
Form 10-Q
August 11, 2003

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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 June 30, 2003

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
incorporation or organization)

77-0016691
(I.R.S. Employer
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 August 6, 2003: 382,420,403

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PART I FINANCIAL INFORMATION

ITEM 1: Financial Statements

ALTERA CORPORATION**CONDENSED CONSOLIDATED BALANCE SHEETS**
(Unaudited, in thousands)

	June 30, 2003	December 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 459,410	\$ 255,397
Short-term investments	616,472	687,262
	<u>1,075,882</u>	<u>942,659</u>
Total cash, cash equivalents, and short-term investments	1,075,882	942,659
Accounts receivable, net	79,516	57,111
Inventories	28,944	39,089
Deferred income taxes	100,459	105,289
Other current assets	32,692	32,028
	<u>1,317,493</u>	<u>1,176,176</u>
Total current assets	1,317,493	1,176,176
Property and equipment, net	172,771	183,999
Investments and intangible assets, net	9,002	11,562
	<u>\$ 1,499,266</u>	<u>\$ 1,371,737</u>
	<u>\$ 1,499,266</u>	<u>\$ 1,371,737</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 43,970	\$ 22,759
Accrued liabilities	21,671	23,109
Accrued compensation	28,565	34,833
Deferred income and allowances on sales to distributors	201,402	144,307
Income taxes payable	29,763	15,493
	<u>325,371</u>	<u>240,501</u>
Total current liabilities	325,371	240,501
Stockholders' equity:		
Common stock	383	384
Capital in excess of par value	406,909	403,318
Retained earnings	773,253	740,824
Deferred stock-based compensation	(7,860)	(14,689)
Accumulated other comprehensive income	1,210	1,399
	<u>1,173,895</u>	<u>1,131,236</u>
Total stockholders' equity	1,173,895	1,131,236
	<u>\$ 1,499,266</u>	<u>\$ 1,371,737</u>
	<u>\$ 1,499,266</u>	<u>\$ 1,371,737</u>

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See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net sales	\$ 205,259	\$ 178,936	\$ 400,335	\$ 350,893
Costs and expenses:				
Cost of sales	65,424	70,165	129,682	138,748
Research and development expenses	46,105	43,838	96,293	85,023
Selling, general, and administrative expenses	45,594	42,276	89,797	85,816
Total costs and expenses	157,123	156,279	315,772	309,587
Income from operations	48,136	22,657	84,563	41,306
Interest and other income, net	1,314	6,707	6,150	13,754
Income before income taxes	49,450	29,364	90,713	55,060
Provision for income taxes	(13,352)	(7,635)	(24,493)	(14,316)
Net income	\$ 36,098	\$ 21,729	\$ 66,220	\$ 40,744
Income per share:				
Basic	\$ 0.09	\$ 0.06	\$ 0.17	\$ 0.11
Diluted	\$ 0.09	\$ 0.06	\$ 0.17	\$ 0.10
Shares used in computing per share amounts:				
Basic	382,725	384,411	382,698	385,085
Diluted	390,902	394,190	389,594	395,641

See accompanying notes to condensed consolidated financial statements.

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(Unaudited, in thousands)

	Six Months Ended June 30,	
	2003	2002
Cash Flows from Operating Activities:		
Net income	\$ 66,220	\$ 40,744
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,251	26,307
Amortization of deferred stock-based compensation	5,395	5,681
Deferred income taxes	4,999	2,887
Loss on securities	3,113	
Changes in assets and liabilities:		
Accounts receivable, net	(22,405)	(46,688)
Inventories	10,145	45,832
Other current assets	(664)	69,616
Accounts payable and accrued liabilities	13,505	9,768
Deferred income and allowances on sales to distributors	57,095	6,419
Income taxes payable	19,735	9,890
Cash provided by operating activities	<u>178,389</u>	<u>170,456</u>
Cash Flows from Investing Activities:		
Purchases of property and equipment	(6,713)	(3,667)
Purchases of short-term investments	(307,186)	(256,892)
Proceeds from the maturity and sale of short-term investments	374,505	251,617
Purchases of intangible assets	(750)	
Cash provided by (used for) investing activities	<u>59,856</u>	<u>(8,942)</u>
Cash Flows from Financing Activities:		
Net proceeds from issuance of common stock	17,629	13,900
Repurchases of common stock	(51,861)	(89,299)
Cash used for financing activities	<u>(34,232)</u>	<u>(75,399)</u>
Net increase in cash and cash equivalents	204,013	86,115
Cash and cash equivalents at beginning of period	<u>255,397</u>	<u>145,048</u>
Cash and cash equivalents at end of period	<u>\$ 459,410</u>	<u>\$ 231,163</u>
Supplemental disclosure of cash flow information:		
Income taxes received, net	\$ (4,170)	\$ (71,778)

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 June 30, 2003, results of operations for the three and six months ended June 30, 2003 and June 30, 2002, and cash flows for the six months ended June 30, 2003 and June 30, 2002. The December 31, 2002 balance sheet was derived from audited financial statements on that date. 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 our management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue 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 December 31, 2002 included in our Annual Report on Form 10-K, as filed on March 11, 2003 with the Securities and Exchange Commission, or SEC. The results of operations for the three and six months ended June 30, 2003 are not necessarily indicative of the results to be expected for any future periods.

Our interim periods ended on July 4, 2003 and June 28, 2002. For presentation purposes, the interim financial statements and accompanying notes refer to our interim periods ending as of June 30th.

Note 2 Guarantees, Indemnifications, and Warranty Liabilities

We indemnify certain customers, distributors, suppliers, and subcontractors for attorney fees and damages and costs awarded against these parties in certain circumstances in which our products are alleged to infringe third party intellectual property rights, including patents, registered trademarks, or copyrights. The terms of our indemnification obligations are generally perpetual from the effective date of the agreement. In certain cases, there are limits on and exceptions to our potential liability for indemnification relating to intellectual property infringement claims. We cannot estimate the amount of potential future payments, if any, that we might be required to make as a result of these agreements. To date, we have not paid any claim or been required to defend any claim related to our indemnification obligations, and accordingly, we have not accrued any amounts for our indemnification obligations. However, there can be no assurances that we will not have any future financial exposure under those indemnification obligations.

We generally warrant our products against defects in materials and workmanship for varying lengths of time. If there is a material increase in the rate of customer claims or our estimates of probable losses relating to specifically identified warranty exposures are inaccurate, we may record a charge against future cost of sales. Warranty expense has historically been immaterial to our financial statements.

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Note 3 Balance Sheet Details:

Inventories at June 30, 2003 and December 31, 2002 were comprised of the following (in thousands):

	June 30, 2003	December 31, 2002
Raw materials and work in process	\$21,369	\$28,841
Finished goods	7,575	10,248
Total inventories	\$28,944	\$39,089

We realized gross margin benefits of \$9.2 million for the three months ended June 30, 2003 and \$18.3 million for the six months ended June 30, 2003, resulting from the sale of inventory previously written down in 2001. The benefits were \$1.4 million for both three and six months ended June 30, 2002.

Property and equipment at June 30, 2003 and December 31, 2002 were comprised of the following (in thousands):

	June 30, 2003	December 31, 2002
Land	\$ 30,779	\$ 30,779
Buildings and improvements	119,417	119,453
Equipment and software	192,191	191,501
Office furniture and fixtures	19,731	19,880
Leasehold improvements	4,775	4,907
Property and equipment, at cost	366,893	366,520
Accumulated depreciation and amortization	(194,122)	(182,521)
Property and equipment, net	\$ 172,771	\$ 183,999

Note 4 Comprehensive Income:

The components of comprehensive income are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net income	\$36,098	\$21,729	\$66,220	\$40,744
Change in unrealized gains/(losses) on available-for-sale investments	183	35	(358)	(2,643)
Income tax (expense) benefit	(68)	(14)	169	954
Comprehensive income	\$36,213	\$21,750	\$66,031	\$39,055

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Accumulated other comprehensive income presented in the accompanying condensed consolidated balance sheets consists of the accumulated unrealized gain on available-for-sale investments, net of tax.

Note 5 Income Per Share:

In accordance with Statement of Financial Accounting Standards No. 128, or SFAS No. 128, Earnings Per Share, we compute basic income per share by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period (excluding the dilutive effect of stock options and restricted stock). Diluted income per share reflects the dilution of potential common shares outstanding during the period. In computing diluted income per share, we adjust share count by assuming that all in-the-money options are exercised and that we repurchase shares with (1) the proceeds of these hypothetical exercises and (2) the amount of the tax benefit resulting from the hypothetical option exercises.

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We further assume that any unamortized deferred stock-based compensation is also used to repurchase shares. In determining the hypothetical shares repurchased, we use the average stock price for the period.

Diluted income per share excludes out-of-the-money stock options and unvested restricted stock totaling 28.2 million shares for the three months ended June 30, 2003 and 33.1 million shares for the six months ended June 30, 2003, as their effect is anti-dilutive. Anti-dilutive stock options and unvested restricted stock totaled 30.1 million shares for the three months ended June 30, 2002 and 27.1 million shares for the six months ended June 30, 2002. While these options are currently anti-dilutive, they could be dilutive in the future. A reconciliation of basic and diluted income per share is presented below (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Basic:				
Net income	\$ 36,098	\$ 21,729	\$ 66,220	\$ 40,744
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Weighted shares outstanding	382,725	384,411	382,698	385,085
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income per share	\$ 0.09	\$ 0.06	\$ 0.17	\$ 0.11
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Diluted:				
Net income	\$ 36,098	\$ 21,729	\$ 66,220	\$ 40,744
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Weighted shares outstanding	382,725	384,411	382,698	385,085
Effect of dilutive securities:				