

ALTERA CORP
Form 10-Q
October 24, 2006
Table of Contents

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, 2006

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
(Address of principal executive offices)

95134
(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 a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large accelerated filer Accelerated filer Non-accelerated filer

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

Number of shares of common stock outstanding at September 29, 2006: 361,777,469

Table of Contents

	<u>PAGE NUMBER</u>	
PART I	<u>FINANCIAL INFORMATION</u>	
ITEM 1:	<u>Financial Statements (Unaudited)</u>	
	<u>Condensed Consolidated Balance Sheets as of June 30, 2006 and December 30, 2005, as restated</u>	3
	<u>Condensed Consolidated Statements of Income for the Three and Six Months Ended June 30, 2006 and July 1, 2005</u>	4
	<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2006 and July 1, 2005</u>	5
	<u>Notes to Condensed Consolidated Financial Statements</u>	6
ITEM 2:	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
ITEM 3:	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	28
ITEM 4:	<u>Controls and Procedures</u>	29
PART II	<u>OTHER INFORMATION</u>	
ITEM 1:	<u>Legal Proceedings</u>	30
ITEM 1A:	<u>Risk Factors</u>	31
ITEM 2:	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	32
ITEM 4:	<u>Submission of Matters to a Vote of Security Holders</u>	33
ITEM 5:	<u>Other Information</u>	33
ITEM 6:	<u>Exhibits</u>	34
	<u>Signatures</u>	35

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1: Financial Statements

ALTERA CORPORATION
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited In thousands, except par value amount)

	June 30, 2006	December 30, 2005
	<u> </u>	<u> </u>
		(as restated) (1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 713,571	\$ 787,707
Short-term investments	543,238	378,881
	<u> </u>	<u> </u>
Total cash, cash equivalents and short-term investments	1,256,809	1,166,588
Accounts receivable, net of allowance of \$5,055 for both period ends	200,604	80,509
Inventories	77,819	70,711
Deferred income taxes	69,176	66,264
Deferred compensation plan assets	63,004	61,567
Other current assets	64,096	49,562
	<u> </u>	<u> </u>
Total current assets	1,731,508	1,495,201
Long-term investments	203,841	115,965
Property and equipment, net	171,951	165,999
Deferred income taxes and other assets, net	53,454	50,531
	<u> </u>	<u> </u>
Total assets	<u>\$ 2,160,754</u>	<u>\$ 1,827,696</u>
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 76,567	\$ 29,388
Accrued liabilities	38,829	30,462
Accrued compensation	49,466	50,631
Deferred compensation plan obligations	63,004	61,567
Deferred income and allowances on sales to distributors	367,806	258,285
Income taxes payable	120,126	133,904
	<u> </u>	<u> </u>
Total current liabilities	715,798	564,237
Capital lease obligations	3,484	3,871
	<u> </u>	<u> </u>
Total liabilities	<u>719,282</u>	<u>568,108</u>
Stockholders equity:		
Common stock: \$0.001 par value; 1,000,000 shares authorized; outstanding - 361,107 shares at June 30, 2006 and 359,419 shares at December 30, 2005	361	359

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Capital in excess of par value	470,179	385,201
Retained earnings	972,886	875,164
Deferred stock-based compensation		(46)
Accumulated other comprehensive loss	(1,954)	(1,090)
	<u> </u>	<u> </u>
Total stockholders' equity	1,441,472	1,259,588
	<u> </u>	<u> </u>
Total liabilities and stockholders' equity	\$ 2,160,754	\$ 1,827,696
	<u> </u>	<u> </u>

(1) See Restatement of previously issued financial statements in Note 1.

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	
	June 30, 2006	July 1, 2005	June 30, 2006	July 1, 2005
Net sales	\$ 334,100	\$ 285,477	\$ 626,930	\$ 550,299
Cost of sales (1)	113,335	90,592	210,441	174,482
Gross margin	220,765	194,885	416,489	375,817
Operating expenses: (1)				
Research and development	63,904	55,340	126,761	106,729
Selling, general, and administrative	76,749	55,895	152,998	110,229
Total operating expenses	140,653	111,235	279,759	216,958
Income from operations	80,112	83,650	136,730	158,859
Interest and other income, net	10,781	8,058	23,214	12,556
Income before income taxes	90,893	91,708	159,944	171,415
Provision for income taxes	(13,633)	(24,142)	(23,991)	(40,083)
Net income	\$ 77,260	\$ 67,566	\$ 135,953	\$ 131,332
Net income per share:				
Basic	\$ 0.21	\$ 0.18	\$ 0.38	\$ 0.35
Diluted	\$ 0.21	\$ 0.18	\$ 0.37	\$ 0.35
Shares used in computing per share amounts:				
Basic	360,501	373,040	359,990	372,961
Diluted (as restated for 2005) (2)	367,092	379,693	367,070	379,631

(1) Effective December 31, 2005, Altera adopted FAS 123(R), Share-Based Payments, and uses the modified prospective method to value its share-based payments. See Note 8 - Stock based compensation for additional information. Stock based compensation is included as follows:

Cost of sales	\$ 554	\$	\$ 1,077	\$
Research and development	\$ 7,977	\$	\$ 15,901	\$
Selling, general and administrative	\$ 10,158	\$ 69	\$ 20,624	\$ 144

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(2) See Restatement of previously issued financial statements in Note 1.

See accompanying notes to condensed consolidated financial statements.

Table of Contents

ALTERA CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Six Months Ended	
	June 30, 2006	July 1, 2005
Cash Flows from Operating Activities:		
Net income	\$ 135,953	\$ 131,332
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,325	14,697
Stock-based compensation	37,602	144
Deferred income tax credit	(5,543)	(4,251)
Tax benefit from stock plans	16,316	14,100
Gross tax benefit from stock-based compensation	(11,455)	
Changes in assets and liabilities:		
Accounts receivable, net	(120,095)	(78,730)
Inventories	(7,108)	3,866
Other assets	(15,121)	97
Accounts payable and accrued liabilities	53,708	(8,565)
Deferred income and allowances on sales to distributors	109,521	34,473
Income taxes payable	(13,778)	18,868
Net cash provided by operating activities	195,325	126,031
Cash Flows from Investing Activities:		
Purchases of property and equipment	(16,195)	(10,812)
Purchases of available-for-sale investments	(513,433)	(167,884)
Proceeds from the maturities and sales of available-for-sale investments	259,794	251,306
Proceeds from the maturities of held-to-maturity investments		14,470
Net cash (used for) provided by investing activities	(269,834)	87,080
Cash Flows from Financing Activities:		
Proceeds from issuance of common stock through stock plans	45,945	38,070
Repurchases of common stock	(53,068)	(81,386)
Gross tax benefit from stock-based compensation	11,455	
(Decrease) increase in book overdrafts	(2,537)	(381)
Payments on capital lease obligations	(1,422)	
Net cash provided by (used for) financing activities	373	(43,697)
Net (decrease) increase in cash and cash equivalents	(74,136)	169,414
Cash and cash equivalents at beginning of period	787,707	579,936
Cash and cash equivalents at end of period	\$ 713,571	\$ 749,350

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Cash paid during the period for:

Income taxes paid, net of refunds	\$ 26,911	\$ 13,570
Interest paid on capital lease obligations	\$ 215	\$

Non-cash transactions:

Assets acquired under capital leases	\$ 4,245	\$
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See accompanying notes to condensed consolidated financial statements.

Table of Contents

ALTERA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 Summary of Significant Accounting Policies:

Organization and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Altera Corporation and subsidiaries, collectively referred to herein as, Altera we, us, or our, have been prepared by us in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information. This financial information reflects all adjustments which are, in