

ATHEROS COMMUNICATIONS INC

Form 10-Q

August 01, 2008

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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, 2008

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 0-50534

**ATHEROS COMMUNICATIONS, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**77-0485570**  
(I.R.S. Employer  
Identification No.)

**5480 Great America Parkway, Santa Clara, CA 95054-3644**

(Address of principal executive offices, Zip Code)

**(408) 773-5200**

(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, a non-accelerated filer, or a smaller reporting company. See definition of accelerated filer, large accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting Company

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

As of July 28, 2008, 59,989,624 shares of Common Stock, par value \$0.0005, were issued and outstanding.

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**Table of Contents****PART I: FINANCIAL INFORMATION****Item 1. Financial Statements****ATHEROS COMMUNICATIONS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands)****(Unaudited)**

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 177,526	\$ 174,256
Short-term marketable securities	75,048	45,288
Accounts receivable, net	75,348	58,002
Inventory	45,858	35,497
Prepaid expenses, deferred income taxes and other current assets	14,436	16,084
Total current assets	388,216	329,127
Property and equipment, net	14,283	13,492
Long-term investments	26,066	30,453
Goodwill	101,013	100,899
Acquired intangible assets, net	29,117	35,226
Deferred income taxes and other assets	15,718	12,940
Total assets	\$ 574,413	\$ 522,137
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 36,303	\$ 29,576
Accrued and other current liabilities	50,996	47,268
Total current liabilities	87,299	76,844
Deferred income taxes and other long-term liabilities	45,262	43,836
Commitments and contingencies		
<b>Stockholders equity:</b>		
Common stock	426,937	400,034
Accumulated other comprehensive income	135	185
Retained earnings	14,780	1,238
Total stockholders equity	441,852	401,457
Total liabilities and stockholders equity	\$ 574,413	\$ 522,137

The accompanying notes are an integral part of these condensed consolidated financial statements.



**Table of Contents****ATHEROS COMMUNICATIONS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share data)****(Unaudited)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net revenue	\$ 121,518	\$ 100,808	\$ 236,036	\$ 196,326
Cost of goods sold	60,057	50,859	116,519	100,775
<b>Gross profit</b>	<b>61,461</b>	<b>49,949</b>	<b>119,517</b>	<b>95,551</b>
Operating expenses:				
Research and development	29,947	24,628	60,001	48,234
Sales and marketing	12,500	8,891	24,442	17,313
General and administrative	6,309	4,786	12,303	9,513
Amortization of acquired intangible assets	3,010	1,789	6,419	3,568
<b>Total operating expenses</b>	<b>51,766</b>	<b>40,094</b>	<b>103,165</b>	<b>78,628</b>
Income from operations	9,695	9,855	16,352	16,923
Interest income, net	1,944	2,770	4,364	5,262
Impairment of long-term investments	(1,387)		(6,457)	
Income before income taxes	10,252	12,625	14,259	22,185
Income tax provision	127	3,343	717	5,304
<b>Net income</b>	<b>\$ 10,125</b>	<b>\$ 9,282</b>	<b>\$ 13,542</b>	<b>\$ 16,881</b>
Basic net income per share	\$ 0.17	\$ 0.17	\$ 0.23	\$ 0.31
Shares used in computing basic net income per share	59,607	55,543	59,258	55,112
Diluted net income per share	\$ 0.16	\$ 0.16	\$ 0.22	\$ 0.29
Shares used in computing diluted net income per share	62,113	59,111	61,780	58,710

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Table of Contents****ATHEROS COMMUNICATIONS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 13,542	\$ 16,881
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,179	2,529
Stock-based compensation	13,946	9,336
Impairment of long-term investments	6,457	
Amortization of acquired intangible assets and other	6,991	3,727
Deferred income taxes	(606)	4,304
Tax benefit from employee stock-based awards	1,028	1,981
Excess tax benefit from employee stock-based awards	(772)	(1,814)
Change in assets and liabilities, net of impact of acquisitions:		
Accounts receivable	(17,329)	(3,347)
Inventory	(10,933)	(3,014)
Prepaid expenses and other current assets	739	(1,934)
Accounts payable	6,269	9,193
Accrued and other current liabilities	3,739	(6,945)
<b>Net cash provided by operating activities</b>	<b>26,250</b>	<b>30,897</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment, net	(3,754)	(3,960)
Purchase of marketable securities	(71,233)	(86,892)
Maturities of marketable securities	41,353	46,877
Proceeds from disposal of assets held for sale from acquisition	600	1,700
Other investments	(2,647)	(36)
<b>Net cash used in investing activities</b>	<b>(35,681)</b>	<b>(42,311)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issuance of common stock	11,929	11,850
Excess tax benefits from employee stock-based awards	772	1,814
<b>Net cash provided by financing activities</b>	<b>12,701</b>	<b>13,664</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>3,270</b>	<b>2,250</b>
CASH AND CASH EQUIVALENTS, Beginning of period	174,256	98,383
<b>CASH AND CASH EQUIVALENTS, End of period</b>	<b>\$ 177,526</b>	<b>\$ 100,633</b>

The accompanying notes are an integral part of these condensed consolidated financial statements.





**Table of Contents****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****1. Organization and Basis of Presentation**

**Organization** Atheros Communications, Inc. (the Company) was incorporated in May 1998 in the state of Delaware and commenced operations in December 1998. The Company is a developer of semiconductor system solutions for communications products.

**Basis of Presentation** The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) related to interim financial statements based on applicable Securities and Exchange Commission (SEC) rules and regulations. Accordingly, they do not include all the information and footnotes required by US GAAP for complete financial statements. This information reflects all adjustments, which are, in the opinion of the Company, of a normal and recurring nature and necessary to present fairly the statements of financial position, results of operations and cash flows for the dates and periods presented. The December 31, 2007 balance sheet was derived from the audited financial statements as of that date. All significant intercompany transactions and balances have been eliminated.

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results may differ from these estimates.

These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the fiscal year ended December 31, 2007 included in its Annual Report on Form 10-K, as filed on February 28, 2008 with the SEC. The results of operations for the three and six months ended June 30, 2008 are not necessarily indicative of the results to be expected for any future periods.

**2. Significant Accounting Policies**

Except as described in Note 3 related to the adoption of SFAS No. 157, the Company's significant accounting policies are disclosed in its audited consolidated financial statements for the year ended December 31, 2007.

**Product Warranty** Components of the reserve for warranty costs during the six months ended June 30, 2008 and 2007 consisted of the following (in thousands):

	<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
Beginning balance	\$ 2,638	\$ 1,258
Additions related to current period sales	2,217	2,034
Warranty costs incurred in the current period	(397)	(465)
Adjustments to accruals related to prior period sales	(2,317)	(543)
Ending balance	\$ 2,141	\$ 2,284

**Recent Accounting Pronouncements** With the exception of those stated below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the six months ended June 30, 2008, as compared to the recent accounting pronouncements described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, that are of material significance, or have potential material significance, to the Company.

Effective January 1, 2008, the Company adopted EITF 07-3, Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities (EITF 07-3). EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. The adoption did not have a material impact on the Company's consolidated results

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or operations or financial condition.

Effective January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements ( SFAS 157 ). In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157, which provides a one year deferral of the effective date of SFAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. Therefore, the Company has adopted the provisions of SFAS 157 with respect to its financial assets and financial liabilities only. SFAS No. 157 requires disclosure that establishes a framework for

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measuring fair value and expands disclosure about fair value measurements. The standard describes a fair value hierarchy based on three levels of inputs that may be used to measure fair value. The inputs for the first two levels are considered observable and the last is unobservable and include the following:

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 inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; or

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and are unobservable.

In the six months ended June 30, 2008 there was no material impact from the adoption of SFAS 157 on the Company's condensed consolidated financial statements.

Effective January 1, 2008, the Company adopted SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159). SFAS 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for specified financial assets and liabilities on a contract-by-contract basis. The Company did not elect to adopt the fair value option under this Statement.

**3. Financial Instruments**

As of June 30, 2008, the Company does not have liabilities that are measured on a fair value basis on a recurring basis.

In accordance with SFAS 157, the following table represents the fair value hierarchy of the Company's financial instruments measured at fair value as of June 30, 2008 (in thousands):

	<b>Fair Value Measurements as of June 30, 2008</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Money market funds	\$ 73,050	\$ 73,050	\$	\$
U.S. government debt securities	103,164	103,164		
Commercial paper	35,393		35,393	
Corporate bonds	9,536		9,536	
Corporate notes	27,303		27,303	
Auction-rate securities	24,066			24,066
<b>Total</b>	<b>\$ 272,512</b>	<b>\$ 176,214</b>	<b>\$ 72,232</b>	<b>\$ 24,066</b>

The Company's Level 3 assets consist of long-term auction-rate securities for which the Company used a discounted cash flow model to value these investments (see Note 5).

The following table provides a summary of changes in fair value of the Company's Level 3 financial assets as of June 30, 2008 (in thousands):

	<b>Auction-Rate Securities</b>	
Balance, December 31, 2007	\$	30,453
Total gains (losses) realized/unrealized		