

ALTERA CORP
Form 10-Q
April 24, 2015
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 March 27, 2015

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)
101 INNOVATION DRIVE
SAN JOSE, CALIFORNIA 95134
(Address of principal executive offices) (zip code)
408-544-7000

77-0016691
(I.R.S. Employer
Identification Number)

(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 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 (§232.405 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

Edgar Filing: ALTERA CORP - Form 10-Q

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 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 Smaller reporting company

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 April 10, 2015: 301,088,968

	PAGE NUMBER
<u>PART I FINANCIAL INFORMATION</u>	
<u>ITEM 1. Financial Statements (Unaudited)</u>	
<u>Consolidated Balance Sheets</u>	<u>3</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows</u>	<u>5</u>
<u>Notes to Consolidated Financial Statements</u>	<u>6</u>
<u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>20</u>
<u>ITEM 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>31</u>
<u>ITEM 4. Controls and Procedures</u>	<u>31</u>
<u>PART II OTHER INFORMATION</u>	
<u>ITEM 1. Legal Proceedings</u>	<u>31</u>
<u>ITEM 1A. Risk Factors</u>	<u>31</u>
<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>32</u>
<u>ITEM 6. Exhibits</u>	<u>33</u>
<u>Signatures</u>	<u>34</u>

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1: Financial Statements

ALTERA CORPORATION

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except par value amount)	March 27, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$2,207,101	\$2,426,367
Short-term investments	168,849	151,519
Total cash, cash equivalents, and short-term investments	2,375,950	2,577,886
Accounts receivable, net	433,690	377,964
Inventories	155,353	153,387
Deferred income taxes — current	62,144	56,048
Deferred compensation plan — marketable securities	65,075	69,367
Deferred compensation plan — restricted cash equivalents	20,226	14,412
Other current assets	42,336	39,479
Total current assets	3,154,774	3,288,543
Property and equipment, net	215,309	194,840
Long-term investments	2,139,810	1,942,343
Deferred income taxes — non-current	20,258	20,077
Goodwill	74,341	74,341
Acquisition-related intangible assets, net	69,827	72,291
Other assets, net	92,746	81,791
Total assets	\$5,767,065	\$5,674,226
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$46,918	\$49,140
Accrued liabilities	33,727	28,384
Accrued compensation and related liabilities	60,234	69,837
Deferred compensation plan obligations	85,301	83,779
Deferred income and allowances on sales to distributors	411,558	344,168
Total current liabilities	637,738	575,308
Income taxes payable — non-current	326,700	313,447
Long-term debt	1,493,082	1,492,759
Other non-current liabilities	6,798	6,886
Total liabilities	2,464,318	2,388,400
Commitments and contingencies (See “Note 12 — Commitments and Contingencies”)		
Stockholders' equity:		
Common stock: \$.001 par value; 1,000,000 shares authorized; outstanding - 301,025 shares at March 27, 2015 and 302,430 shares at December 31, 2014	301	302
Capital in excess of par value	1,170,315	1,165,259
Retained earnings	2,108,201	2,110,620
Accumulated other comprehensive income	23,930	9,645
Total stockholders' equity	3,302,747	3,285,826
Total liabilities and stockholders' equity	\$5,767,065	\$5,674,226

See accompanying notes to consolidated financial statements.

3

Table of Contents

ALTERA CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(In thousands, except per share amounts)	Three Months Ended	
	March 27, 2015	March 28, 2014
Net sales	\$435,485	\$461,092
Cost of sales	156,263	151,868
Gross margin	279,222	309,224
Research and development expense	103,231	97,657
Selling, general, and administrative expense	70,506	74,507
Amortization of acquisition-related intangible assets	2,464	2,465
Compensation expense — deferred compensation plan	27	1,454
Gain on deferred compensation plan securities	(27)	(1,454)
Interest income and other	(6,596)	(5,985)
Gain reclassified from other comprehensive income	(2,506)	(48)
Interest expense	10,408	10,488
Income before income taxes	101,715	130,140
Income tax expense	6,863	13,626
Net income	94,852	116,514
Other comprehensive income:		
Unrealized holding gain on investments:		
Unrealized holding gain on investments arising during period, net of tax of \$41 and \$24	16,785	12,560
Less: Reclassification adjustments for gain on investments included in net income, net of tax of \$6 and \$4	(2,500)	(44)
Other comprehensive income	14,285	12,516
Comprehensive income	\$109,137	\$129,030
Net income per share:		
Basic	\$0.31	\$0.37
Diluted	\$0.31	\$0.37
Shares used in computing per share amounts:		
Basic	301,308	316,552
Diluted	303,285	318,901
Dividends per common share	\$0.18	\$0.15

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Three Months Ended	
	March 27, 2015	March 28, 2014
Cash Flows from Operating Activities:		
Net income	\$94,852	\$116,514
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,453	14,628
Amortization of acquisition-related intangible assets	2,464	2,465
Amortization of debt discount and debt issuance costs	779	779
Stock-based compensation	20,325	23,347
Net gain on sale of available-for-sale securities	(2,506)	(48)
Amortization of investment discount/premium	2,129	685
Deferred income tax benefit	(651)	(1,711)
Tax effect of employee stock plans	—	(217)
Excess tax benefit from employee stock plans	(203)	(326)
Changes in assets and liabilities:		
Accounts receivable, net	(55,726)	39,623
Inventories	(1,966)	5,743
Other assets	(9,098)	(5,185)
Accounts payable and other liabilities	(2,998)	(3,425)
Deferred income and allowances on sales to distributors	67,390	(73,227)
Income taxes payable and receivable, net	5,894	10,111
Deferred compensation plan obligations	1,495	674
Net cash provided by operating activities	136,633	130,430
Cash Flows from Investing Activities:		
Purchases of property and equipment	(38,593)	(12,622)
Purchases of deferred compensation plan securities, net	(1,495)	(674)
Purchases of available-for-sale securities	(625,960)	(103,982)
Proceeds from sale of available-for-sale securities	387,985	35,562
Proceeds from maturity of available-for-sale securities	37,472	41,548
Purchases of intangible assets	(257)	—
Purchases of other investments	(2,000)	—
Net cash used in investing activities	(242,848)	(40,168)
Cash Flows from Financing Activities:		
Proceeds from issuance of common stock through stock plans	1,408	6,082
Shares withheld for employee taxes	(2,994)	(3,048)
Payment of dividends to stockholders	(54,161)	(47,554)
Long-term debt and credit facility issuance costs	—	(1,321)
Repurchases of common stock	(57,507)	(161,794)
Excess tax benefit from employee stock plans	203	326
Net cash used in financing activities	(113,051)	(207,309)
Net decrease in cash and cash equivalents	(219,266)	(117,047)
Cash and cash equivalents at beginning of period	2,426,367	2,869,158
Cash and cash equivalents at end of period	\$2,207,101	\$2,752,111
See accompanying notes to consolidated financial statements.		

Table of Contents

ALTERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 — Organization and Basis of Presentation

The accompanying unaudited consolidated financial statements of Altera Corporation and its 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 (“U.S. GAAP”) for interim financial information. This financial information reflects all adjustments which are, in the opinion of our management, of a normal recurring nature and necessary for a fair statement of the results for the periods presented. The December 31, 2014 consolidated balance sheet data was derived from our audited consolidated financial statements included in our 2014 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission (“SEC”), but does not include all disclosures required by U.S. GAAP. The consolidated financial statements include our accounts as well as those of our wholly-owned subsidiaries after elimination of all significant inter-company balances and transactions.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates.

These consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2014 included in our Annual Report on Form 10-K. The consolidated operating results for the three months ended March 27, 2015 are not necessarily indicative of the results to be expected for any future period.

Certain prior year amounts in the consolidated financial statements and the notes thereto have been reclassified to conform to the current year presentation. These reclassifications did not affect the prior period total assets, total liabilities, stockholders' equity, net income or net cash provided by operating activities.

Note 2 — Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued a new financial accounting standard on revenue from contracts with customers, Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers”. The standard outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The accounting standard update is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. Early adoption is not permitted. We are currently evaluating the impact of this accounting standard on our consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, “Consolidation: Amendments to the Consolidation Analysis”. This standard update is intended to improve targeted areas of consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. This ASU simplifies consolidation accounting by reducing the number of consolidation models and improves current U.S. GAAP by (1) placing more emphasis on risk of loss when determining a controlling financial interest; (2) reducing the frequency of the application of related-party guidance when determining a controlling financial interest in a variable interest entity; and (3) changing consolidation conclusions for public and private companies in several industries that typically make use of limited partnerships or variable interest entities. The amendments in this ASU are effective for reporting periods beginning after December 15, 2015, with early adoption permitted. Entities can transition to the standard either retrospectively or as a cumulative effect adjustment as of the date of adoption. The adoption of ASU 2015-02 is not

expected to have an impact on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, "Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs". This standard update requires an entity to present debt issuance costs on the balance sheet as a direct deduction from the related debt liability as opposed to an asset. Amortization of the costs will continue to be reported as interest expense. The update is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued, and the new guidance would be applied retrospectively to all prior periods presented. The adoption of this standard update is not expected to have a material impact on our consolidated financial statements.

Table of Contents

Note 3 — Acquisition-Related Intangible Assets, Net

Acquisition-related intangible assets, net were as follows:

(In thousands)	March 27, 2015			Weighted-Average Amortization Period
	Gross Assets	Accumulated Amortization	Net	
Developed technology	\$67,670	\$(13,398)	) \$54,272	9.4 years
Customer relationships	12,910	(3,967)	) 8,943	6.8 years
Trade name	3,700	(774)	) 2,926	8.9 years
Non-competition agreements	700	(650)	) 50	2.0 years
Other intangible assets	930	(794)	) 136	1.2 years
Acquisition-related intangible assets, net subject to amortization	85,910	(19,583)	) 66,327	
In-process research & development	3,500	—	3,500	
Total acquisition-related intangible assets, net	\$89,410			