

ATHEROS COMMUNICATIONS INC

Form 10-Q

October 20, 2009

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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 September 30, 2009

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** **77-0485570**  
(State or other jurisdiction of **(I.R.S. Employer**  
**incorporation or organization)** **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 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

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 October 15, 2009, 62,436,669 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>September 30, 2009</b>	<b>December 31, 2008</b>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 122,687	\$ 114,530
Short-term marketable securities	260,143	179,228
Accounts receivable, net	61,336	58,385
Inventory	43,178	69,813
Prepaid expenses, deferred income taxes and other current assets	21,987	15,889
Total current assets	509,331	437,845
Property and equipment, net	11,923	14,789
Long-term investments	16,486	16,963
Goodwill	100,862	101,687
Acquired intangible assets, net	14,955	23,305
Deferred income taxes and other assets	22,595	21,119
Total assets	\$ 676,152	\$ 615,708
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 38,959	\$ 30,511
Accrued and other current liabilities	64,485	65,490
Total current liabilities	103,444	96,001
Deferred income taxes and other long-term liabilities	28,265	48,229
Commitments and contingencies		
<b>Stockholders equity:</b>		
Common stock	491,721	451,066
Accumulated other comprehensive income	1,838	302
Retained earnings	50,884	20,110
Total stockholders equity	544,443	471,478
Total liabilities and stockholders equity	\$ 676,152	\$ 615,708

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 September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Net revenue	\$ 156,641	\$ 138,064	\$ 356,790	\$ 374,100
Cost of goods sold	81,047	69,939	186,072	186,458
<b>Gross profit</b>	<b>75,594</b>	<b>68,125</b>	<b>170,718</b>	<b>187,642</b>
Operating expenses:				
Research and development	32,619	30,859	92,144	90,860
Sales and marketing	14,872	13,471	42,593	37,913
General and administrative	8,178	7,034	20,980	19,337
Amortization of acquired intangible assets	2,580	2,927	8,350	9,346
Acquisition-related charges	977		977	
<b>Total operating expenses</b>	<b>59,226</b>	<b>54,291</b>	<b>165,044</b>	<b>157,456</b>
<b>Income from operations</b>	<b>16,368</b>	<b>13,834</b>	<b>5,674</b>	<b>30,186</b>
Interest income, net	1,351	2,354	4,585	6,718
Impairment of long-term investments	(874)	(4,385)	(2,011)	(10,842)
<b>Income before income taxes</b>	<b>16,845</b>	<b>11,803</b>	<b>8,248</b>	<b>26,062</b>
Income tax benefit (provision)	21,731	(1,715)	22,526	(2,432)
<b>Net income</b>	<b>\$ 38,576</b>	<b>\$ 10,088</b>	<b>\$ 30,774</b>	<b>\$ 23,630</b>
<b>Basic net income per share</b>	<b>\$ 0.62</b>	<b>\$ 0.17</b>	<b>\$ 0.50</b>	<b>\$ 0.40</b>
Shares used in computing basic net income per share	62,111	60,146	61,485	59,554
<b>Diluted net income per share</b>	<b>\$ 0.60</b>	<b>\$ 0.16</b>	<b>\$ 0.49</b>	<b>\$ 0.38</b>
Shares used in computing diluted net income per share	64,215	62,624	63,162	62,062

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>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 30,774	\$ 23,630
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,264	4,822
Stock-based compensation	30,296	21,554
Impairment of long-term investments	2,011	10,842
Amortization of acquired intangible assets and other	8,350	9,918
Deferred income taxes	(23,429)	(659)
Tax benefit from employee stock-based awards	614	2,174
Excess tax benefit from employee stock-based awards	(586)	(1,899)
Change in assets and liabilities, net of impact of acquisitions:		
Accounts receivable	(2,951)	(32,987)
Inventory	26,635	(17,409)
Prepaid expenses and other current assets	(4,765)	(1,941)
Accounts payable	8,121	11,070
Accrued and other current liabilities	(836)	17,883
<b>Net cash provided by operating activities</b>	<b>79,498</b>	<b>46,998</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment, net	(2,192)	(5,397)
Purchase of marketable securities	(145,729)	(124,682)
Maturities of marketable securities	65,708	52,609
Other investment activity	541	(2,362)
<b>Net cash used in investing activities</b>	<b>(81,672)</b>	<b>(79,832)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issuance of common stock	9,745	14,854
Excess tax benefits from employee stock-based awards	586	1,899
<b>Net cash provided by financing activities</b>	<b>10,331</b>	<b>16,753</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>8,157</b>	<b>(16,081)</b>
<b>CASH AND CASH EQUIVALENTS, Beginning of period</b>	<b>114,530</b>	<b>174,256</b>
<b>CASH AND CASH EQUIVALENTS, End of period</b>	<b>\$ 122,687</b>	<b>\$ 158,175</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 ( U.S. 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 U.S. 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 condensed consolidated balance sheets and statements of results of operations and cash flows for the dates and periods presented. The December 31, 2008 balance sheet was derived from the audited financial statements as of that date, but does not include all disclosures required by U.S. GAAP. All significant intercompany transactions and balances have been eliminated.

The preparation of financial statements in conformity with U.S. 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, 2008 included in its Annual Report on Form 10-K, as filed on February 13, 2009 with the SEC (the Annual Report ). The results of operations for the three and nine months ended September 30, 2009 are not necessarily indicative of the results to be expected for any future periods.

**2. Significant Accounting Policies**

The Company's significant accounting policies are disclosed in its audited consolidated financial statements for the year ended December 31, 2008 included in the Annual Report.

**Product Warranty** Components of the accrual for warranty costs during the nine months ended September 30, 2009 and 2008 consisted of the following (in thousands):

	<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
Beginning balance	\$ 1,433	\$ 2,638
Additions related to current period sales	2,795	3,037
Warranty costs incurred in the current period	(1,607)	(580)
Adjustments to accruals related to prior period sales	(634)	(3,229)
Ending balance	\$ 1,987	\$ 1,866

**Recent Accounting Pronouncements** With the exception of those stated below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the nine months ended September 30, 2009, as compared to the recent accounting pronouncements described in the Annual Report that are of material significance, or have potential material significance, to the Company.

Effective July 1, 2009, the Company adopted the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 105-10, *Generally Accepted Accounting Principles - Overall* ( ASC 105-10 ). ASC 105-10 establishes the *FASB Accounting Standards Codification* (the Codification ) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. All guidance contained in the Codification carries an

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equal level of authority. The Codification superseded all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification is non-authoritative. The FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standa