

ATHEROS COMMUNICATIONS INC

Form 10-Q

August 10, 2004

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

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(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, 2004

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

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**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.)

**529 Almanor Avenue, Sunnyvale, CA 94085-3512**

(Address of principal executive offices, Zip Code)

**(408) 773-5200**

(Registrant's telephone number, including area code)

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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

As of August 1, 2004, 46,894,660 shares of Common Stock, par value \$0.0005, were issued and outstanding.

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**FOR THE QUARTER ENDED JUNE 30, 2004**

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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,</b>	<b>December 31,</b>
	<b>2004</b>	<b>2003</b>
	<u>          </u>	<u>          </u>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 38,269	\$ 13,615
Marketable securities	117,341	15,424
Accounts receivable, net	19,477	9,855
Inventories	16,134	10,929
Prepaid expenses and other current assets	3,270	1,110
	<u>          </u>	<u>          </u>
Total current assets	194,491	50,933
Property and equipment, net	2,668	2,346
Other assets	1,359	2,607
	<u>          </u>	<u>          </u>
	<u>\$ 198,518</u>	<u>\$ 55,886</u>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current liabilities:</b>		
Short-term borrowings	\$	\$ 4,000
Accounts payable	15,619	15,585
Accrued liabilities	15,337	10,838
Current portion of debt and capital lease obligations	293	1,346
	<u>          </u>	<u>          </u>
Total current liabilities	31,249	31,769
	<u>          </u>	<u>          </u>
Long-term liabilities	1,128	1,831
Commitments and contingencies		
<b>Stockholders equity:</b>		
Convertible preferred stock		98,344
Common stock	247,229	15,003
Stockholder notes receivable	(123)	(123)

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Deferred stock-based compensation	(4,123)	(6,344)
Accumulated deficit	(76,690)	(84,591)
Accumulated other comprehensive income	(152)	(3)
	<u>          </u>	<u>          </u>
Total stockholders' equity	166,141	22,286
	<u>          </u>	<u>          </u>
	\$ 198,518	\$ 55,886
	<u>          </u>	<u>          </u>

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 June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Net revenue	\$ 46,593	\$ 15,125	\$ 89,692	\$ 24,531
Cost of goods sold (1)	23,347	8,739	47,415	14,218
<b>Gross profit</b>	<b>23,246</b>	<b>6,386</b>	<b>42,277</b>	<b>10,313</b>
<b>Operating expenses:</b>				
Research and development (1)	10,496	6,671	20,221	12,943
Sales and marketing (1)	4,159	2,566	7,660	4,660
General and administrative (1)	2,063	1,217	4,293	2,151
Stock-based compensation	1,024	820	2,140	882
<b>Total operating expenses</b>	<b>17,742</b>	<b>11,274</b>	<b>34,314</b>	<b>20,636</b>
Income (loss) from operations	5,504	(4,888)	7,963	(10,323)
Interest income (expense), net	470	(15)	623	13
Income (loss) before income taxes	5,974	(4,903)	8,586	(10,310)
Income taxes	452		685	
<b>Net income (loss)</b>	<b>\$ 5,522</b>	<b>\$ (4,903)</b>	<b>\$ 7,901</b>	<b>\$ (10,310)</b>
<b>Basic net income (loss) per share</b>	<b>\$ 0.12</b>	<b>\$ (0.41)</b>	<b>\$ 0.20</b>	<b>\$ (0.87)</b>
Shares used in computing basic net income (loss) per share	46,499	12,037	38,637	11,836
<b>Diluted net income (loss) per share</b>	<b>\$ 0.10</b>	<b>\$ (0.41)</b>	<b>\$ 0.15</b>	<b>\$ (0.87)</b>
Shares used in computing diluted net income (loss) per share	53,799	12,037	51,015	11,836

(1) Amounts exclude stock-based compensation, as follows:

Cost of goods sold	\$ 73	\$ 77	\$ 148	\$ 119
Research and development	356	77	720	119

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Sales and marketing	253	11	510	12
General and administrative	342	732	762	751
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
	\$ 1,024	\$ 820	\$ 2,140	\$ 882
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>

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</b>	
	<b>June 30,</b>	
	<b>2004</b>	<b>2003</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 7,901	\$ (10,310)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	1,039	890
Amortization of non-cash stock-based compensation	2,140	882
Amortization of warrants	21	36
Change in assets and liabilities:		
Accounts receivable	(9,622)	(5,889)
Inventories	(5,205)	(1,490)
Prepaid expenses and other current assets	(2,118)	(387)
Accounts payable	34	5,256
Other accrued liabilities	5,187	1,507
Net cash used in operating activities	<u>(623)</u>	<u>(9,505)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(1,361)	(474)
Purchase of marketable securities	(123,431)	(6,978)
Maturities of marketable securities	21,365	17,759
Other assets	1,186	18
Net cash provided by (used in) investing activities	<u>(102,241)</u>	<u>10,325</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issuance of common stock	133,970	54
Repurchase of common stock	(8)	
Short-term borrowings		3,000
Repayment of short-term borrowings	(4,000)	
Collection of notes receivable		9
Proceeds from issuance of debt		682
Repayments of debt and capital lease obligations	(2,444)	(728)
Net cash provided by financing activities	<u>127,518</u>	<u>3,017</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>24,654</b>	<b>3,837</b>
CASH AND CASH EQUIVALENTS, Beginning of period	13,615	3,094



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CASH AND CASH EQUIVALENTS, End of period	<u>\$ 38,269</u>	<u>\$ 6,931</u>
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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**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 wireless communications products.

**Basis of Presentation and Use of Estimates** The accompanying unaudited 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 (the SEC ) rules and regulations. Accordingly, they do not include all of the information and footnotes required by US GAAP for complete financial statements. This financial 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, 2003 balance sheet was derived from 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, 2003 included in its Form S-1, as filed on February 11, 2004 with the SEC. The results of operations for the three and six months ended June 30, 2004 are not necessarily indicative of the results to be expected for any future periods.

**2. Stockholders' Equity**

On January 23, 2004, the Company completed a 3-for-4 reverse split of its outstanding common stock. All information related to common stock, options and warrants to purchase common stock and earnings per share included in the accompanying condensed consolidated financial statements have been adjusted to give effect to the reverse stock split.

In February 2004, the Company completed an initial public offering whereby it sold 10,350,000 shares of