MICROTUNE INC
Form 10-Q
October 25, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007

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 000-31029-40

MICROTUNE, INC.

(Exact name of registrant as specified in its charter)

Delaware	**75-2883117**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

2201 10th Street

Plano, Texas 75074

(Address of principal executive office and zip code)

(972) 673-1600

(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 x NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filed ¨

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

As of October 19, 2007, there were approximately 53,829,050 shares of the registrant s Common Stock, $0.001 par value per share outstanding.

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PART I.

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MICROTUNE, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

(unaudited)

	September 30, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 84,261	$ 38,010
Short-term investments		44,750
Accounts receivable, net	11,400	6,609
Inventories	10,206	8,988
Other current assets	2,834	2,127
Total current assets	108,701	100,484
Property and equipment, net	4,038	4,275
Other assets and deferred charges	3,061	843
Total assets	$ 115,800	$ 105,602
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 5,822	$ 4,847
Accrued compensation	3,643	2,646
Accrued expenses	2,102	1,731
Deferred revenue	77	23
Total current liabilities	11,644	9,247
Other non-current liabilities	118	87
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.001 par value; Authorized 25,000 shares; Issued and outstanding shares none		
Common stock, $0.001 par value; Authorized 150,000 shares; Issued and outstanding shares 53,809 and 53,290, respectively	54	53
Additional paid-in capital	460,570	454,591
Accumulated other comprehensive loss	(988)	(988)
Accumulated deficit	(355,598)	(357,388)
Total stockholders equity	104,038	96,268

Total liabilities and stockholders equity	$ 115,800	$ 105,602

See accompanying notes.

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MICROTUNE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Net revenue	$ 23,813	$ 17,965	$ 68,377	$ 52,660
Cost of revenue	11,823	9,071	33,755	26,100
Gross margin	11,990	8,894	34,622	26,560
Operating expenses:				
Research and development	5,782	5,172	17,451	15,316
Selling, general and administrative	6,179	6,331	18,838	15,997
Total operating expenses	11,961	11,503	36,289	31,313
Income (loss) from operations	29	(2,609)	(1,667)	(4,753)
Other income (expense):				
Interest income	1,054	1,117	3,282	3,024
Foreign currency gains (losses), net	127	(38)	219	113
Other	42	4	67	31
Income (loss) before income taxes	1,252	(1,526)	1,901	(1,585)
Income tax expense	50	3	111	162
Net income (loss)	$ 1,202	$ (1,529)	$ 1,790	$ (1,747)
Net income (loss) per common share:				
Basic	$ 0.02	$ (0.03)	$ 0.03	$ (0.03)
Diluted	$ 0.02	$ (0.03)	$ 0.03	$ (0.03)
Weighted-average common shares outstanding:				
Basic	53,753	53,249	53,613	53,055
Diluted	56,596	53,249	55,796	53,055

See accompanying notes.

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MICROTUNE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Operating activities:		
Net income (loss)	$ 1,790	$ (1,747)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:		
Depreciation	1,100	1,141
Foreign currency gains, net	(219)	(113)
Stock-based compensation	4,639	4,584
Loss (gain) on sale of assets	(16)	3
Changes in operating assets and liabilities:		
Accounts receivable, net	(4,791)	(1,726)
Inventories	(1,218)	(1,190)
Other assets	(2,925)	(580)
Accounts payable	975	(1,520)
Accrued expenses	371	488
Accrued compensation	997	496
Deferred revenue	54	54
Other liabilities	31	3
Net cash provided by (used in) operating activities	788	(107)
Investing activities:		
Purchases of property and equipment	(847)	(961)
Proceeds from sale of assets		7
Proceeds from maturity of held-to-maturity investments		1,620
Proceeds from sale of available-for-sale investments	58,750	47,600
Purchase of available-for-sale investments	(14,000)	(34,850)
Net cash provided by investing activities	43,903	13,416
Financing activities:		
Proceeds from issuance of common stock	1,341	1,112
Net cash provided by financing activities	1,341	1,112
Effect of foreign currency exchange rate changes on cash	219	113
Net increase in cash and cash equivalents	46,251	14,534
Cash and cash equivalents at beginning of period	38,010	5,068
Cash and cash equivalents at end of period	$ 84,261	$ 19,602

See accompanying notes.

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MICROTUNE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007

(unaudited)

1. Summary of Significant Accounting Policies

Description of Business

Microtune, Inc. began operations in August 1996. We design and market radio frequency (RF) integrated circuits (ICs) and subsystem module solutions for the cable, digital television and automotive electronics markets. Our tuner, amplifier and upconverter products permit the delivery, reception and exchange of broadband video, audio and data using terrestrial (off-air) and/or cable communications systems. Our products enable various consumer electronics, broadband communications and automotive electronics applications or devices, including cable television set-top boxes; high-speed voice and data cable modems; car audio, video and antenna amplifier systems; digital/analog televisions, including high-definition televisions; personal computer television (PC/TV) multimedia products; and mobile (handheld) televisions. We sell our products to original equipment manufacturers (OEMs) and original design manufacturers (ODMs) who sell devices and applications to consumers or service providers within the cable, digital television and automotive electronics markets.

We operate Microtune as a single business unit or reportable operating segment serving our target markets. We record our operating expenses by functional area and account type, but we do not record or analyze our operating expenses by market, product type or product. We attempt to analyze our net revenue by market, but in some cases we sell our products to resellers or distributors, giving us limited ability to determine market composition of our net revenue from these customers. In addition, certain of our OEM customers purchase product from us for applications in multiple end-markets, also limiting our ability to determine our net revenue contribution from each market.

General

The accompanying unaudited financial statements as of and for the third quarter and first three quarters of 2007 and 2006 have been prepared by us, pursuant to the rules and regulations of the United States Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted pursuant to such rules and regulations. These unaudited consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

In the opinion of management, all adjustments which are of a normal and recurring nature and are necessary for a fair presentation of the financial position, results of operations, and cash flows as of and for the third quarter and first three quarters of 2007 and 2006 have been made. Results of operations for the third quarter and first three quarters of 2007 and 2006 are not necessarily indicative of results of operations to be expected for the entire year or any other period.

Risk and Uncertainties

Our future results of operations and financial condition will be impacted by the following factors, among others: dependence on the worldwide cable, digital television and automotive electronics markets characterized by intense competition and rapidly changing technology, on a few significant customers, on third-party manufacturers and subcontractors, on third-party distributors in certain markets, on partners when we go to market with a joint solution, on the successful development and marketing of new products in new and existing markets and on seasonality in the demand for consumer products into which our products are incorporated. Our future results also may be impacted by foreign currency fluctuations as a result of our international operations and foreign currency based revenue, and product warranty liabilities and line down clauses. See Part II, Item 1A. Risk Factors and Part I, Item 3. Quantitative and Qualitative Disclosures About Market Risk below.

Consolidation

Our consolidated financial statements include the financial statements of Microtune and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

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Use of Estimates

We make estimates, judgments and assumptions that affect the amounts reported in the financial statements and the disclosures made in the accompanying notes, including inventory valuation allowances, warranty costs, determining the collectibility of accounts receivable, the valuation of deferred tax assets, contingent liabilities and other amounts. We also use estimates, judgments and assumptions to determine the remaining economic lives and carrying values of property and equipment and other long-lived assets. We believe that the estimates, judgments and assumptions upon which we rely are appropriate and correct, based upon information available to us at the time that they are made. These estimates, judgments and assumptions can affect our reported assets and liabilities as of the date of the financial statements, as well as the reported net revenue and expenses during the periods presented. If there are material differences between these estimates, judgments or assumptions and actual facts, our financial statements will be affected.

Cash and Cash Equivalents

We consider highly liquid investments with maturities of three months or less at date of purchase to be cash equivalents. Cash and cash equivalents consist of bank deposits and money market funds.

Investments

Our investments are comprised of high-quality securities purchased in accordance with our investment policy. Investments in debt securities are classified as held-to-maturity when we intend to hold them to maturity. Held-to-maturity investments are carried at amortized cost with the amortization of the purchase discount recorded in interest income. Investments in debt securities not classified as held-to-maturity and equity securities are classified as available-for-sale and carried at fair market value, with unrealized gains and losses, net of tax, recorded in stockholders equity. Realized gains and losses and other-than-temporary declines in value, if any, on available-for-sale securities are reported in other income and expense as incurred and are determined based on the specific identification method. At September 30, 2007, we held no short-term investments. At December 31, 2006, our short-term investments, which included corporate debt securities and other debt securities issued by United States government and state agencies, consisted of auction-rate securities categorized as available-for-sale investments. The auction-rate securities in established markets were available to support current operations and were classified as short-term investments although their contractual maturities were greater than 10 years. At September 30, 2007 and December 31, 2006, we held no long-term investments. At December 31, 2006, the carrying value of our investments approximated the fair value. Unrealized gains and losses on our investments categorized as available-for-sale investments were insignificant at December 31, 2006. Our investments are reviewed periodically for other-than-temporary impairment.

Allowance for Doubtful Accounts

We evaluate the collectibility of our accounts receivable based on several factors. In circumstances where we are aware of a specific customer s inability to meet its financial obligations to us, we record a specific allowance for bad debts against amounts due to us and reduce the net recorded receivable to the amount we reasonably believe will be collected. We also consider recognizing allowances for doubtful accounts based on the length of time the receivables are outstanding compared to contractual terms, industry and geographic concentrations, the current business environment and our historical experience. Accounts receivable included in the allowance for doubtful accounts are written-off after final collection efforts are exhausted. If the financial condition of our customers deteriorates or if economic conditions worsen, increases in the allowance may be required in the future. We cannot predict future changes in the financial stability of our customers, and there can be no assurance that our allowance will be adequate. Actual credit losses for the third quarter and first three quarters of 2007 and 2006 were insignificant. No allowance for doubtful accounts was recorded as of September 30, 2007 and December 31, 2006.

Inventory Valuation

Our inventories are stated at the lower of standard cost, which approximates actual cost, or estimated realizable value. Amounts are removed from inventory using the first-in, first-out (FIFO) method. Adjustments to reduce our inventories to estimated realizable value, including allowances for excess and obsolete inventories, are determined quarterly by comparing inventory levels of individual materials and parts to current demand forecasts for those items. In addition, we review other individual facts and circumstances to determine necessary adjustments to reduce our inventories to estimated realizable value, including current manufacturing yields, product returns and warranty claims. Actual amounts realized upon the sale of inventories may differ from estimates used to determine inventory valuation allowances due to changes in customer demand, technology changes and other factors. The net impact of changes in the inventory valuation allowances for the third quarter of 2007 and 2006 was a charge to cost of revenue of approximately $0.1 million and $0.4 million, respectively. The net impact of changes in the inventory valuation allowances for the first three quarters of 2007 was a charge to cost of revenue of approximately $0.4 million. The net impact of changes in the inventory valuation allowances for the first three quarters of 2006 was insignificant.

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Property and Equipment

Our property and equipment are stated at cost, net of accumulated depreciation. We calculate depreciation using the straight-line method over the estimated useful lives of the assets, which generally range from 3 to 7 years. We depreciate leasehold improvements using the straight-line method over the lesser of their estimated useful lives or remaining lease terms.

Impairment of Long-lived Assets

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. We evaluate the recoverability of these assets by a comparison of their carrying amount to projected undiscounted cash flows expected to be generated by the assets or business center. If we determine our long-lived assets are impaired, we recognize the impairment in the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets.

Revenue Recognition

We recognize revenue when we receive a purchase order from our customer, our product has been shipped, title has transferred to our customer, the price that we will receive for our product is fixed or determinable and collection from our customer is considered probable. Title to our product transfers to our customer either when it is shipped to or received by our customer, based on the terms of the customer s specific agreement.

Our revenue is recorded based on the facts then currently known to us. If we do not meet all the criteria above, we do not recognize revenue. If we are unable to determine the amount that we will ultimately collect once our product has shipped and title has transferred to our customer, we defer recognition of revenue until we can determine the amount that ultimately will be collected. Items that are considered when determining the amounts we will ultimately collect are: a customer s overall creditworthiness and payment history, customer rights to return unsold product, customer rights to price protection, customer payment terms conditioned on sale or use of product by the customer, or other extended payment terms granted to a customer. It is not our standard business practice to grant any of these terms to our customers, other than certain limited stock rotation rights discussed below.

For certain of our customers, we do not recognize revenue until receipt of payment because collection is not probable or the amount we will ultimately collect is not determinable at the date of the shipment. Upon shipment of product to these customers, title to the inventory transfers to the customer and the customer is invoiced. We account for these transactions by recording accounts receivable for the revenue value of the shipments, as the shipments represent valid receivables, and reducing inventory for the cost of the inventory shipped. The difference, representing the gross margin on the transactions, is recorded as deferred revenue. For financial statement presentation purposes, this deferred revenue balance is offset against the corresponding accounts receivable balance from the customer. When payment is received for the transaction, revenue is recognized for the value of the cash payment, cost of revenue is recorded for the cost of the inventory and the deferred revenue is relieved for the gross margin on the transaction. At September 30, 2007, there were no products shipped for which revenue was deferred. At December 31, 2006, the sales value of products shipped for which revenue was deferred was approximately $0.1 million. All of the revenue deferred at December 31, 2006 was recognized during the first quarter of 2007.

When we defer revenue, the timing and amount of revenue we ultimately recognize is determined upon our receipt of payment, which can result in significant fluctuations in revenue from period to period. In the third quarter of 2007, revenue recognized upon receipt of payment was insignificant. In the third quarter of 2006, we recognized 1% of our net revenue upon receipt of payment. In the first three quarters of 2007 and 2006, we recognized 1% and 5%, respectively, of our net revenue upon receipt of payment.

We also defer revenue when customers have made payments and we have not completed the earnings process. These payments are reflected as liabilities in our financial statements as deferred revenue. In these instances, we recognize revenue once the product is shipped, title has transferred to our customer and the earnings process is complete. Deferred revenue as a result of customer prepayments was insignificant as of September 30, 2007 and December 31, 2006.

We grant limited stock rotation rights to certain distributors, allowing them to return qualifying product to us in accordance with their specific agreements for up to 5% of their aggregate net purchases for the previous six months. In these circumstances, we require the distributor to submit an offsetting purchase order that is, at a minimum, equivalent to the aggregate dollar amount of the product to be returned. We account for the return as a reduction to revenue and a reduction to

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accounts receivable for the price of the items returned. Correspondingly, cost of revenue is reduced by the cost of returned inventory offset by an increase in inventory. Any returned inventory items are included in gross inventories, are reviewed along with our other inventory items and are recorded at the lower of cost or market. Historically, distributor returns under stock rotation rights have been insignificant. As a result, we do not establish a reserve for potential returns when product is shipped to distributors, rather we subsequently monitor distributor inventory levels and record a reserve for potential returns of estimated unsaleable inventory subject to stock rotation rights. We account for the shipment of replacement product as a sales transaction, which offsets the reduction of revenue discussed above.

Research and Development Costs

Our research and development expenses consist primarily of personnel-related expenses, lab supplies, training and prototype materials. We expense all of our research and development costs in the period incurred as our current process for developing our products is essentially completed concurrently with the establishment of technological feasibility. Research and development efforts currently are focused primarily on the development of our next generation of RF products.

Shipping and Handling Costs

Shipping and handling costs related to product shipments to customers are included in cost of revenue.

Warranty Costs

We generally provide a minimum of a one-year warranty on all products. In certain instances, a warranty beyond one-year is provided to comply with statutory requirements of foreign jurisdictions. We record specific warranty provisions for any identified individual product issues, which have not been significant to date.

Foreign Currency Translation

Our functional currency is the United States Dollar. The impact from the re-measurement of accounts not denominated in United States Dollars is recognized currently in our results of operations as a component of foreign currency gains and losses and results primarily from exchange rate fluctuations between the United States Dollar and the Euro. Net foreign currency gains were $0.1 million during the third quarter of 2007 and insignificant during the third quarter of 2006. Net foreign currency gains were $0.2 million and $0.1 million during the first three quarters of 2007 and 2006, respectively.

Income Taxes