MICROTUNE INC
Form 10-Q
October 23, 2008
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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, 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 number 000-31029-40

MICROTUNE, INC.

(Exact name of registrant as specified in its charter)

Delaware	**75-2883117**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**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, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer x
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 Exchange Act). Yes ¨ No x

As of October 17, 2008, there were approximately 52,950,402 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, 2008	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 82,213	$ 87,537
Accounts receivable, net	16,361	9,489
Inventories	10,047	10,979
Other current assets	3,824	2,313
Total current assets	112,445	110,318
Property and equipment, net	5,472	4,203
Other assets and deferred charges	2,351	2,788
Total assets	$ 120,268	$ 117,309
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 6,097	$ 4,460
Accrued compensation	2,446	4,634
Accrued expenses	2,297	2,703
Deferred revenue	157	166
Total current liabilities	10,997	11,963
Non-current liabilities	236	122
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 52,936 and 53,999, respectively	53	54
Additional paid-in capital	460,661	462,402
Accumulated other comprehensive loss	(988)	(988)
Accumulated deficit	(350,691)	(356,244)
Total stockholders equity	109,035	105,224
Total liabilities and stockholders equity	$ 120,268	$ 117,309

See accompanying notes.

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MICROTUNE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(unaudited)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Net revenue	$ 31,928	$ 23,813	$ 84,003	$ 68,377
Cost of revenue	16,477	11,823	42,832	33,755
Gross margin	15,451	11,990	41,171	34,622
Operating expenses:				
Research and development	6,980	5,782	19,416	17,451
Selling, general and administrative	5,382	6,179	16,855	18,838
Total operating expenses	12,362	11,961	36,271	36,289
Income (loss) from operations	3,089	29	4,900	(1,667)
Other income (expense):				
Interest income	465	1,054	1,374	3,282
Foreign currency gains (losses), net	(271)	127	(196)	219
Other, net	4	42	13	67
Income before income taxes	3,287	1,252	6,091	1,901
Income tax expense	112	50	538	111
Net income	$ 3,175	$ 1,202	$ 5,553	$ 1,790
Net income per common share:				
Basic	$ 0.06	$ 0.02	$ 0.10	$ 0.03
Diluted	$ 0.06	$ 0.02	$ 0.10	$ 0.03
Weighted-average common shares outstanding:				
Basic	53,372	53,753	53,822	53,613
Diluted	54,425	56,596	55,541	55,796

See accompanying notes.

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MICROTUNE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Operating activities:		
Net income	$ 5,553	$ 1,790
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,452	1,100
Stock-based compensation	3,631	4,639
Loss (gain) on disposal of assets	13	(16)
Changes in operating assets and liabilities:		
Accounts receivable, net	(7,038)	(4,753)
Inventories	932	(1,218)
Other assets	(1,074)	(2,925)
Accounts payable	1,593	975
Accrued expenses	(641)	371
Accrued compensation	(2,188)	997
Deferred revenue	(9)	54
Other liabilities	6	31
Net cash provided by operating activities	2,230	1,045
Investing activities:		
Purchases of property and equipment	(2,347)	(847)
Proceeds from sale of available-for-sale investments		58,750
Purchase of available-for-sale investments		(14,000)
Net cash provided by (used in) investing activities	(2,347)	43,903
Financing activities:		
Proceeds from issuance of common stock	981	1,341
Surrender of common stock by employees for payroll taxes	(277)	
Repurchase and retirement of common stock, including direct expenses	(6,077)	
Net cash provided by (used in) financing activities	(5,373)	1,341
Effect of foreign currency exchange rate changes on cash	166	(38)
Net increase (decrease) in cash and cash equivalents	(5,324)	46,251
Cash and cash equivalents at beginning of period	87,537	38,010
Cash and cash equivalents at end of period	$ 82,213	$ 84,261
Non-cash investing activities:		
Investment in enterprise software and equipment	$ (387)	$

See accompanying notes.

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MICROTUNE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2008

(unaudited)

1. Summary of Significant Accounting Policies

Description of Business

Microtune, Inc. (Microtune) 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 or target 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 television systems, including high-definition televisions; personal computer television (PC/TV) multimedia products; and mobile television receivers. 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 serving multiple end markets, giving us limited ability to determine market composition of our net revenue from these customers. In addition, certain of our OEM customers purchase products 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 2008 and 2007 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, 2007.

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 2008 and 2007 have been made. Results of operations for the third quarter and first three quarters of 2008 and 2007 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, dependence 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 revenues, 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. We also may be negatively impacted by the worldwide macroeconomic downturn.

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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Reclassifications

Amounts in the Consolidated Statements of Cash Flows for the nine months ended September 30, 2007 have been reclassified to conform to current year presentation.

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, liabilities for potential incentive compensation and other amounts. We also use estimates, judgments and assumptions to determine the impairment of investments and 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, 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.

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 doubtful accounts 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 for doubtful accounts 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 for doubtful accounts will be adequate. Actual credit losses for the third quarter and first three quarters of 2008 and 2007 were insignificant. No allowance for doubtful accounts was recorded as of September 30, 2008 and December 31, 2007, respectively.

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 2008 and 2007 was a charge (benefit) to cost of revenue of $(0.1) million and $0.1 million, respectively. The net impact of changes in the inventory valuation allowances for the first three quarters of 2008 and 2007 was a charge (benefit) to cost of revenue of $(0.2) million and $0.4

million, respectively.

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.

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Property and equipment acquired under capital leases are recorded at the lower of the fair value or the present value of the future minimum lease payments and are amortized using the straight-line method over the lease term. At September 30, 2008, our obligations under capital leases were $0.3 million.

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 payment 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 our specific agreement with the customer.

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 is probable of collection once our product has shipped and title has transferred to our customer, we defer recognition of revenue until we can determine the amount that is probable of collection. Items that are considered when determining the amounts that are probable of collection 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, 2008, the sales value of products shipped for which revenue was deferred was $0.1 million. At December 31, 2007, there were no products shipped for which revenue was deferred.

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 net revenue from period to period. In the third quarter and first three quarters of 2008 and 2007, net revenue recognized upon receipt of payment was insignificant.

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 $0.1 million and $0.2 million as of September 30, 2008 and December 31, 2007, respectively

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 net revenue and a reduction to 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 net 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 complete concurrent with the establishment of technological feasibility. Our research and development efforts currently are focused primarily on the development of our next generation of products.

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