MICROTUNE INC
Form 10-Q
May 07, 2004
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark one)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 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 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 Number)**

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, as amended, 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 filing requirements for the past 90 days. YES x NO ¨

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES x NO ¨

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. As of April 30, 2004, approximately 51,410,857 shares of the Registrant s Common Stock, $0.001 par value per share were outstanding.

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Caution Regarding Forward-Looking Statements

Throughout this quarterly report on this Form 10-Q, there are forward-looking statements that are based upon our current expectations, estimates and projections about our business and our industry, and that reflect our beliefs and assumptions based upon information available to us at the date of this report. In some cases, you can identify these statements by words such as if, may, might, will, should, expects, plans, anti believes, estimates, predicts, potential or continue, and other similar terms. These forward-looking statements include, among other things, projections of our future financial performance, our anticipated growth, our strategies and the trends we anticipate in our businesses and the markets in which we operate, and the competitive nature and anticipated growth of those markets.

We caution investors that forward-looking statements are only predictions, based on our current expectations about future events. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. Our actual results, performance or achievements could differ materially from those expressed or implied by the forward-looking statements. In addition to the other information in this report, we encourage you to review the information regarding risk set forth under the caption *Factors Affecting Operating Results and Stock Price* below and in our other filings with the Securities and Exchange Commission (SEC), before deciding to invest in our stock or to maintain or change your investment. We caution investors not to rely on these forward-looking statements, which reflect management s analysis only as of the date of this report. We undertake no obligation to revise or update any forward-looking statement for any reason.

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PART I.

Financial Information

Item 1. Financial Statements

Microtune, Inc.

Consolidated Balance Sheets

(In thousands, except per share data)

(unaudited)

	March 31, 2004	December 31, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 53,376	$ 53,337
Short-term investments	6,045	6,045
Accounts receivable, net	5,030	4,260
Inventories	3,223	4,165
Other current assets	3,367	4,309
Total current assets	71,041	72,116
Property and equipment, net	6,912	7,504
Long-term investments	5,026	14,028
Intangible assets, net	5,545	6,564
Other assets and deferred charges	661	447
Total assets	$ 89,185	$ 100,659
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 4,684	$ 7,195
Accrued compensation	1,335	1,182
Accrued expenses	3,062	3,945
Deferred revenue	107	147
Total current liabilities	9,188	12,469
Other non-current liabilities	1,464	1,466
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 50,953 and 49,917 respectively	52	51
Additional paid-in capital	436,281	436,025

Unearned stock compensation	(865)	(1,124)
Loans receivable from stockholders	(5)	(30)
Accumulated other comprehensive loss	(962)	(960)
Accumulated deficit	(355,968)	(347,238)
Total stockholders equity	78,533	86,724
Total liabilities and stockholders equity	$ 89,185	$ 100,659

See accompanying notes.

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Consolidated Statements of Operations

(In thousands, except per share data)

(unaudited)

	Three Months Ended March 31,	
	2004	**2003**
Net revenue	$ 11,039	$ 12,622
Cost of revenue	5,923	10,401
Gross margin	5,116	2,221
Operating expenses:		
Research and development:		
Stock option compensation	178	1,205
Other	3,384	6,565
	3,562	7,770
Selling, general and administrative:		
Stock option compensation	80	413
Other	8,243	6,447
	8,323	6,860
Restructuring	111	1,403
Amortization of intangible assets	1,066	1,081
Total operating expenses	13,062	17,114
Loss from operations	(7,946)	(14,893)
Other income (expense):		
Interest income	215	412
Foreign currency gains (losses), net	(1,208)	(150)
Other	309	78
Loss before provision for income taxes	(8,630)	(14,553)
Income tax expense	100	163
Net loss	$ (8,730)	$ (14,716)
Basic and diluted loss per common share	$ (0.17)	$ (0.30)
Weighted-average shares used in computing basic and diluted loss per common share	51,399	49,773

See accompanying notes.

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Consolidated Statements of Cash Flows

(In thousands)

(unaudited)

	Three Months Ended March 31,	
	2004	**2003**
Operating activities:		
Net loss	$ (8,730)	$ (14,716)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	662	2,169
Amortization of intangible assets	1,066	1,081
Non-cash restructuring costs	(2)	111
Foreign currency losses, net	1,208	388
Amortization of deferred stock option compensation	258	1,618
Gain on sale of property and equipment	(264)	
Changes in operating assets and liabilities:		
Accounts receivable, net	(770)	1,055
Inventories	942	(616)
Other assets	728	184
Accounts payable	(2,402)	(70)
Accrued expenses	(1,081)	(1,965)
Other liabilities	(2)	
Accrued compensation	153	113
Net cash used in operating activities	(8,234)	(10,648)
Investing activities:		
Purchases of property and equipment	(72)	(227)
Proceeds from sale of property and equipment	266	199
Proceeds from sale of Philippine manufacturing assets	51	1,648
Proceeds from available-for-sale investments	9,000	
Purchase of available-for-sale investments		(4,000)
Loans receivable		(130)
Acquisition of intangible assets	(47)	(118)
Net cash provided by (used in) investing activities	9,198	(2,628)
Financing activities:		
Proceeds from issuance of common stock	263	113
Loans receivable from stockholders	25	
Other, net	(5)	
Net cash provided by financing activities	283	113
Effect of foreign currency exchange rate changes on cash	(1,208)	(388)
Net increase (decrease) in cash and cash equivalents	39	(13,551)
Cash and cash equivalents at beginning of period	53,337	101,278
Cash and cash equivalents at end of period	$ 53,376	$ 87,727

See accompanying notes.

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Notes to Consolidated Financial Statements

March 31, 2004

(unaudited)

1. Summary of Significant Accounting Policies

Description of business

Microtune, Inc. commenced operations in August 1996. We operate in a single industry segment, designing and marketing radio frequency (RF) integrated circuits and subsystem module solutions for the worldwide broadband communications and transportation electronics markets.

General

The accompanying unaudited financial statements as of and for the first quarter of 2004 and 2003 have been prepared by us, pursuant to the rules and regulations of the 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, 2003.

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 first quarter of 2004 and 2003 have been made. Results of operations for the first quarters of 2004 and 2003 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 broadband communications and transportation electronics markets, on a few significant customers, on third party manufacturers and subcontractors, on third party distributors in certain markets, and on the successful development of products and marketing of new products; foreign currency fluctuations as a result of our international operations; intellectual property rights; litigation costs and product liability.

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.

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 reserves for inventory, 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 purchased intangibles, 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 revenue and expense 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 original maturities of three months or less to be cash equivalents. Cash and cash equivalents consist of bank deposits, money market funds and asset-backed commercial paper. Our investments in asset-backed commercial paper are comprised of high-quality securities in accordance with our investment policy.

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Investments

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 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. Our short-term investments consist of certificates of deposit which are classified as held-to-maturity and are due within 1 year at March 31, 2004. Our long-term investments which consist of mortgage backed securities are classified as available-for-sale and are due within 2 years at March 31, 2004. The carrying values of our investments approximates their fair values. Our investments are reviewed periodically for other-than-temporary impairment.

Inventories

Our inventories are stated at the lower of standard cost, which approximates actual cost, or estimated realizable value. 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, current backlog and estimated future sales. 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.

Property and Equipment

Our property and equipment is 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 amortize leasehold improvements using the straight-line method over the lesser of their estimated useful lives or remaining lease terms.

Intangible Assets

Our intangible assets, which consist primarily of patents and customer base, have been recorded as the result of our business or asset acquisitions and are being amortized on the straight-line basis over 3 to 5 years.

Impairment of Long-lived Assets

We review long-lived assets, including intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We evaluate the recoverability of these assets by a comparison of the carrying amount of an asset 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 either when it is shipped to or received by our customer, based on the specific customer agreement.

Our revenue is recorded based on the facts 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 credit worthiness and payment history; customer rights to return unsold product; customer rights to price protection; customer payment terms conditional 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.

For certain of our customers, collection is not probable or the amount we will ultimately collect is not determinable at the date of the shipment and revenue is not recognized until receipt of payment. 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 sales 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 sales is recorded for the value of the inventory and the deferred revenue is relieved for the gross margin on the transaction. At March 31, 2004, the sales value of products shipped for which revenue was deferred was approximately $0.3 million.

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In most instances 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 revenues from period to period. In the first quarter of 2004 and 2003, we recognized 12% and 28% of our net revenue upon receipt of payment, respectively. In other instances, deferred revenue is recorded 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, once the product is shipped and title has transferred to our customer, we will recognize revenue. As of March 31, 2004 we had $0.1 million of deferred revenue as a result of customer prepayments and none as of the same period for 2003.

We do grant limited stock rotation rights for conforming product to certain distributors for up to 15% of the 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 accounts receivable for the price of the items returned. Correspondingly, cost of sales is reduced by the cost of returned inventory offset by an increase in inventory. Any returned inventory items are included in gross inventories and are reviewed along with our other inventory items and are valued at the lower of cost or market. Historically, distributor returns under stock rotation rights have been insignificant due to our requirement that returns be offset by new purchase orders and the incremental shipping, handling and customs costs distributors wo