

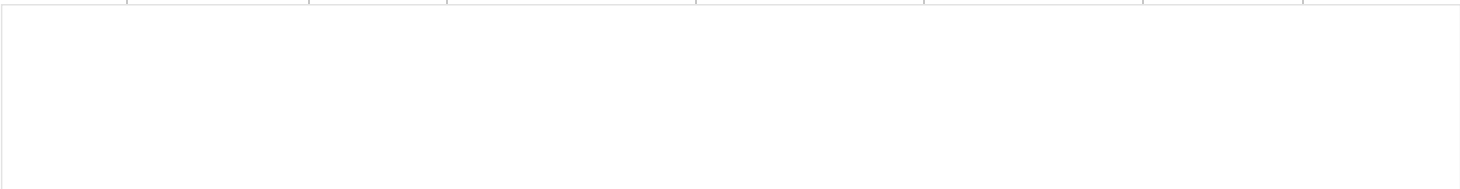
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TRADER EXTRA

# M/A-Com's Accounting Issue

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By VITO J. RACANELLI  
 June 13, 2015 1:33 a.m. ET

[M/A-Com Technology Solutions Holdings](#), a Lowell, Mass.-based maker of radio-frequency, microwave, and other semiconductor products, recently moved to "sell-in" revenue recognition from "sell-through." Such changes bear watching.

M/A-Com (MTSI) used to recognize revenue when distributors sold its products to end users. Now it does so when it sells the products to distributors and establishes a reserve against future returns. Distributors accounted for almost 25% of sales last year.

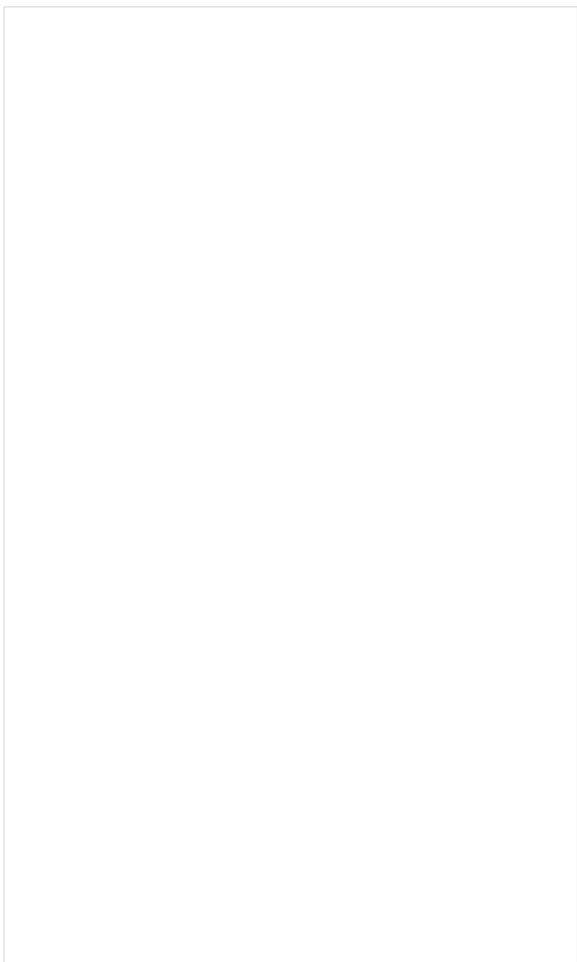
The change was announced in February when M/A-Com reported \$114.8 million in sales for the quarter ended Jan. 2. The net effect was a one-time increase of \$15.1 million in sales. Without this accounting change, M/A-Com would have missed Wall Street's sales expectations of about \$114 million by a wide margin.

In the six months ended April 3, the company reported sales of \$239.8 million and a loss from continuing operations of \$13.8 million, or 28 cents per share, compared with \$192 million in sales and a loss from continuing operations of \$26.4 million, or 57 cents, in the year-earlier period. But the revenue accounting change boosted sales by \$18.8 million and reduced the loss by \$8.8 million, or 18 cents. Again, without the one-time change, the most recent loss would have been comparable to last year's instead of less, and the sales growth would have been 15%, not 25%.

...ust below a 52-week high, might have been nit nard if the market thought the company missed expectations. More important, the one-time boost to future quarterly results from this change will be exhausted in early 2016, as the company's results lap the new accounting method. If sales growth without the accounting boost doesn't match market expectations, the stock could suffer.

According to Sam McBride, an analyst at New Constructs, an independent accounting-research outfit, the "sell-in" method raises the possibility of channel stuffing. For example, a company pushing to meet sales targets at quarter-end could overload distributor channels during the quarter with more inventory than they could possibly sell. The quarterly results will show the company is selling more, but it is possible that big returns, and associated costs, will follow.

M/A-Com's days' sales outstanding rose to 65 days in the fiscal second quarter ended April 3, up from 57 in the year-earlier quarter. Increasing DSO is more worrisome following a shift to "sell-in," because it is difficult to identify channel stuffing, as



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companies don't have to show how much of their products are in distributor inventories.

McBride says M/A-Com is shifting to a more aggressive revenue-recognition model. It allows the company to book sales even when the price of the goods sold to distributors isn't fixed and readily determinable, he says. Such a significant accounting-policy change, he adds, could lead to a material overstatement of revenue and net income, if distributors require more pricing adjustments or refunds than expected or reserved for.

M/A-Com didn't return a call for comment.

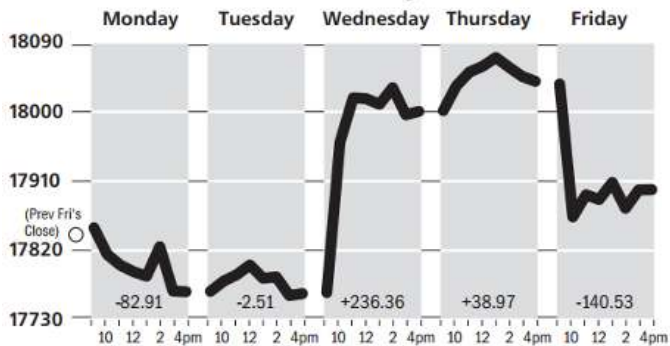
There are other worrisome issues. Like many tech companies, M/A-Com presents results using generally accepted accounting principles (GAAP), but also presents non-GAAP figures, which it asserts are a better reflection of operations. In the first six months, non-GAAP EPS rose to 79 cents per share from 57 cents.

The non-GAAP results exclude share-based compensation, certain cash compensation, merger and acquisition costs, and earn-out costs, among other expenses that seem recurring for a tech company growing partly by acquisitions. The share count keeps rising, with another offering earlier this year of 8.3 million shares, further diluting existing shareholders. (Some 3.3 million shares were sold by existing shareholders.) In the past four years, shares outstanding have more than quadrupled to 53 million.

M/A-Com has been a highflying stock. The shares could be vulnerable to a selloff if revenue disappoints.

### FIVE-DAY DOW COMPOSITE

Dow(n): All 30 stocks in the index fell Friday, but the Dow held on to some of its earlier gains, rising 0.3% on the week. That ended a three-week losing streak.



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