

MICROTUNE INC  
Form 10-K/A  
March 15, 2004  
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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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### FORM 10-K/A

Amendment No. 1

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(Mark One)

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2002

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

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## MICROTUNE, INC.

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**2201 10<sup>th</sup> Street**

**Plano, Texas**  
(Address of principal executive offices)

**75-2883117**  
(I.R.S. Employer  
Identification Number)

**75074**  
(Zip code)

**Registrant's telephone number, including area code (972) 673-1600**

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**Securities registered pursuant to Section 12(b) of the Act: None**

**Securities registered pursuant to Section 12(g) of the Act:**

**Common Stock, \$0.001 par value per share**

*(Title of Class)*

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 such filings 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 Act). Yes  No

As of June 30, 2003 there were 50,332,277 shares of the Registrant's common stock, \$0.001 par value per share, outstanding. This is the only outstanding class of common stock of the Registrant. As of that date, the aggregate market value of the shares of common stock held by non-affiliates of the Registrant (based on the closing price of \$3.18 per share of Registrant's common stock as quoted by the NASDAQ Stock Market on that date,) was approximately \$132,645,915. The Registrant's common stock was delisted from the NASDAQ Stock Market effective July 7, 2003. In addition, because the Registrant is not current in its periodic reporting requirements under the Securities Exchange Act of 1934, as amended, the Registrant is not currently eligible to trade on the OTC Bulletin Board. The Registrant's shares of common stock are currently quoted on the pink sheets, which subject broker-dealers to additional sales practice requirements. For purposes of this disclosure shares of the Registrant's common stock held by persons who hold more than 5% of the outstanding shares of common stock and shares by officers and directors of the Registrant, have been excluded in that such persons may be deemed to be affiliates. This determination is not necessarily conclusive.



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**MICROTUNE, INC.**

**FORM 10-K/A**

**YEAR ENDED DECEMBER 31, 2002**

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**Explanatory Note:** Microtune, Inc. is filing this Amendment No. 1 on Form 10-K/A to its Form 10-K for the year ended December 31, 2002 that was originally filed on July 31, 2003 (the Original 10-K ) to (i) supplement the discussion under Item 14 Controls and Procedures and (ii) make certain technical corrections to the text of the certifications of our chief executive officer and chief financial officer so that they conform to the exact form mandated by the applicable rules and regulations under the Securities Exchange Act of 1934, as required by the Sarbanes-Oxley Act of 2002. For the convenience of the reader, this Amendment No. 1 amends in its entirety the Original 10-K. This Amendment No. 1 continues to speak as of the date of the Original 10-K, and we have not updated the disclosure contained herein to reflect any events that occurred at a later date other than that set forth above. All information contained in this Amendment No. 1 is subject to updating and supplementing as provided in our periodic reports filed with the SEC subsequent to the date of the filing of the Original 10-K.

**CAUTION REGARDING FORWARD-LOOKING STATEMENTS**

Throughout this annual report on this Form 10-K/A, 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, anticipate, 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 planned improvements to our internal and disclosure controls, our strategies and 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 upon 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. Some of the important factors that could cause our results to differ are discussed in *Factors Affecting Future Operating Results and Stock Price* in Item 7, and in *Quantitative and Qualitative Disclosures About Market Risk*, in Item 7A. We encourage you to read those sections carefully. You should carefully consider those risks, in addition to the other information in this annual report on this Form 10-K/A and in our other filings with the Securities and Exchange Commission, 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 annual report on this Form 10-K/A. We undertake no obligation to revise or update any forward-looking statement for any reason.

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**PART I**

**ITEM 1. BUSINESS**

**Website Access to Reports and Other Information**

We make our proxy statement, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, available free of charge upon request by phone (telephone number: (972) 673-1850), by email to investor@microtune.com, in writing to our Investor Relations department at 2201 10<sup>th</sup> Street, Plano, Texas 75074 or through our internet web site, [www.microtune.com](http://www.microtune.com), as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC).

**Events Subsequent to December 31, 2002**

***Restatements of Financial Statements***

This annual report on Form 10-K/A contains restatements of our previously reported financial statements for 2001 and for our quarters ended September 30, 2001, December 31, 2001, March 31, 2002, June 30, 2002 and September 30, 2002. In addition, this report contains revisions to our financial results for our quarter ended December 31, 2002 that were reported via a press release on February 20, 2003, and a related current report on Form 8-K filed with the SEC. This annual report on Form 10-K/A should be considered to amend all our previous disclosures with respect to the restated periods.

For a full discussion of the effects of our restatements see Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, and Note 2 of the Notes to Consolidated Financial Statements, see also Item 6, *Selected Financial Data*.

***Audit Committee Inquiry***

In February 2003 our Audit Committee, under the direction of our Board of Directors, retained John M. Fedders, a former Director of the Division of Enforcement of the SEC, as independent counsel to inquire into the events related to negative adjustments to recorded revenue for products shipped in the third and fourth quarters of 2002. The inquiry was subsequently expanded to cover all of 2001 and 2002, and concluded in July 2003.

The inquiry concluded that in certain instances we recognized revenue earlier than appropriate under accounting principles generally accepted in the United States (GAAP). On April 29, 2003, based on preliminary findings of the inquiry, our Board determined to restate our previously reported financial statements for 2001 and for our quarters ended September 30, 2001, December 31, 2001, March 31, 2002, June 30, 2002 and

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September 30, 2002. Based on the preliminary findings our Board also determined to revise our financial results that were reported via a press release on February 20, 2003, and a related current report on Form 8-K filed with the SEC.

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Our Board's determinations are based upon summary findings from the inquiry set forth in the numbered paragraphs below.

1. We shipped product to customers at the end of quarters in excess of orders received at the time of shipment, including shipments of unfinished product. We recognized revenue for these shipments even though we had not received purchase orders for the product shipped.
2. We granted extended payment terms, including flexible payment terms, to customers, including customers who were delinquent in their obligations to us. We recognized revenue despite collection of the related accounts receivable being questionable, and reserves were not established.
3. We granted price protection arrangements to distributors whereby (a) profits were guaranteed and (b) credits were promised to our distributors if the product was resold for less than what we were to be paid. While price protection arrangements are not improper, we recognized revenue when it should not have been under GAAP.
4. We granted rights of return, or extraordinary stock rotation privileges, to our distributors. These included the right to return any product not sold. Despite these rights of return, we recognized revenue at the time of shipment.

In addition, in preparing our restated financial statements, we determined that in some cases we recognized revenue in the wrong quarter because delivery of our product was not in accordance with our customers' shipping terms and shipment had been made to a third party warehouse rather than to our customer.

The full extent and nature of these arrangements, rights, terms and shipments were not known by our Board, certain members of management and our auditors. At the direction of our Board, the independent counsel to the Audit Committee has been in communication with the staff of the SEC regarding the events described above. We expect that the SEC will conduct a formal investigation of the events described above.

The inquiry also found that we had insufficient internal control policies, insufficient procedures for the supervision of any controls, and insufficient means to detect violations of our controls or GAAP. We do not employ any internal audit personnel. As a result of the inquiry, we concluded that our system of controls and procedures for the timely and accurate issuance of periodic press releases has material weaknesses and is significantly deficient, and that we have inadequate means for monitoring prior public statements to detect whether an update or correction is needed as new material events occur.

Based on the findings and in accordance with federal securities laws, we are evaluating our procedures and policies, and we are in the process of initiating additional procedures and policies to address some of the material weaknesses and significant deficiencies we have found to date. In addition, we are in the process of implementing internal control procedures to ensure that we recognize revenue in the appropriate period and under the appropriate method under GAAP.

In January 2003, we began requiring each of our sales and sales support personnel and each of our officers to certify for each quarter beginning with the quarter ended December 31, 2002 that, except as disclosed to us, he or she has not entered into any verbal agreements or written agreements on our behalf that are outside our standard written agreements.

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Regarding credit policy compliance, in May 2003 we alerted our sales and sales support staff that strict observance of all terms of our credit policy, including obtaining written authorization, will be required without exception.

In April 2003 for the first quarter of 2003, our accounting department compared all purchase orders received from customers to the corresponding invoices generated by our Enterprise Resource Planning system. Differences were investigated and the results used to determine the appropriate recognition of revenue. We

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intend to perform similar comparisons for subsequent quarters. Error rates related to invoicing are tracked and used to monitor compliance with our internal controls.

In June 2003, we adopted and are in the process of implementing a whistleblower policy. This policy provides a means for our employees to anonymously inform us of (a) unethical business practices, (b) illegal activity, (c) deviations from our policies and procedures, (d) erroneous accounting treatment of business transactions, (e) weaknesses in internal controls, (f) disputes with auditors, and (g) disclosures in SEC reports or other public disclosures that are not full, fair, accurate, timely and understandable.

In July 2003, we adopted and are in the process of implementing a Code of Ethics to promote the honest and ethical conduct of all of our officers and financial executives, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships, to promote full, fair, accurate, timely and understandable disclosure in periodic reports required to be filed by us, and to promote compliance with all applicable rules and regulations that apply to us and our officers.

In addition, we have revised our revenue recognition procedures such that revenue for product sales that is not recognized upon shipment or upon receipt by our customers is deferred and is generally not recognized until we receive payment from our customers.

Our Board also has determined that the responsibilities of our General Counsel and our Chief Financial Officer should be performed by at least two separate individuals. We are currently in the process of searching for a new Chief Financial Officer.

We expect that additional internal controls, disclosure controls and new internal auditing controls and procedures will be adopted and implemented as a result of the inquiry and our ongoing evaluation.

***Resignation of William L. Housley***

On April 25, 2003, William L. Housley resigned from his positions as our President and Chief Operating Officer.

***Resignation of Douglas J. Bartek***

On June 27, 2003, Douglas J. Bartek resigned from his positions as Chairman of our Board, CEO and President. The vacated board seat remains empty at this time. Mr. Bartek and our Board reached an agreement as to his severance terms.

***Office of the President***

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Our Board anticipates that it will announce a new CEO in the near future. In the interim, our Board has established an Office of the President that is filled by Harvey B. (Berry) Cash, a Director and Chairman of our Compensation Committee, James H. Clardy, a Director and Chairman of our Audit Committee, and Albert H. Taddiken, our Chief Technical Officer.

### *NASDAQ Delisting*

On April 17, 2003, we received a NASDAQ Staff Determination stating that our failure to comply with NASDAQ filing requirements subjected our securities to delisting from the NASDAQ Stock Market. This determination was a result of our delinquency in filing this annual report on Form 10-K/A. On May 16, 2003, in an oral hearing before a NASDAQ Listing Qualifications Panel to review the NASDAQ Staff Determination, we presented our plan for compliance with NASDAQ filing requirements and requested a stay from the delisting of our securities. We were granted a stay until June 16, 2003. We were not, however, able to become compliant

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with our reporting requirements by that time. As a result, our securities were delisted from the NASDAQ Stock Market effective July 7, 2003. We sent notice of our intent to appeal the delisting decision on July 11, 2003. There can be no assurance that our appeal to the NASDAQ Listing and Hearing Review Council will be successful. Because we are not current in our periodic reporting requirements under the Securities Exchange Act of 1934, as amended, we are not currently eligible to trade on the OTC Bulletin Board. Our shares of common stock are currently quoted on the pink sheets, which may entail higher transaction costs for trades and reduced ability to liquidate shares of our common stock.

### ***Material Charges Related to Goodwill and Our Bluetooth Wireless Business***

In the fourth quarter of 2002, we recognized charges of \$50.7 million for the impairment of goodwill, \$46.9 million for impairment of intangible assets associated with our Bluetooth wireless business, and a charge to cost of revenue of approximately \$12.8 million representing our estimate of excess Bluetooth wireless inventories and our non-cancelable purchase obligations for wireless inventories at December 31, 2002. The intangibles and inventory related to Bluetooth technology we acquired in November 2001 with our acquisition of Transilica Inc., n/k/a Microtune (San Diego) Inc.

### ***Cost Reduction Measures***

On March 27, 2003, we sold equipment and inventory related to our manufacturing operations in the Philippines, where we built our Module and MicroModule subsystem solutions, to Three-Five Systems, Inc. (TFS). We also entered into a contract with TFS under which TFS could satisfy our current demand for our Module and MicroModule RF subsystems. We may be required to repurchase raw material inventory from TFS under this contract if our actual and forecasted manufacturing volumes are less than we forecasted when the contract was made. We currently anticipate that we will have an obligation to repurchase a portion of the raw material inventory. However, the amount of this obligation cannot be reasonably estimated at this time.

After TFS nearby Filipino manufacturing facility has obtained the necessary quality certifications, and product produced by TFS is qualified by us and certain of our customers, we intend to close our facility in the Philippines. However, there can be no assurance that such qualifications will occur timely, if at all. We believe our relationship with TFS will allow us to focus on RF technology innovation and product development. As a result of the sale of assets to TFS, we reduced our payroll by approximately 1,000 employees.

On April 23, 2003, we sold Microtune (Holland) Holding B.V. f/k/a SPaSE Holding B.V., our wholly-owned subsidiary and design center located in Nijmegen, The Netherlands (MHDC), to the Micronas Group (Micronas). The design center primarily developed and marketed baseband technology such as demodulators for European digital TV products.

From October 2002 through June 30, 2003, we reduced our worldwide workforce from approximately 1,600 to approximately 220, including the reductions related to the TFS transaction. In the future we may consider and take additional actions to reduce our personnel. There can be no assurance that any additional reductions would not materially and adversely affect our ability to generate revenue and develop new products.

### ***Recently Filed Securities Litigation***

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Beginning in February 2003, Microtune, our former Chairman of the Board and CEO, Douglas J. Bartek, our former Chief Financial Officer and Vice-President of Finance and Administration, Everett Rogers, our former President and Chief Operating Officer, William L. Housley, and our present Chief Financial Officer and General Counsel, Nancy A. Richardson, were named as defendants in several class action lawsuits alleging violations of federal securities laws and regulations. The actions have been consolidated into one case and lead plaintiffs have been appointed. We intend to vigorously defend the suits against us. There can be no assurance

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regarding the outcome of the litigation or any related claims for indemnification or contribution. The outcome of the litigation may have a material and adverse impact on our results of operations or financial condition in the future.

If our directors' and officers' liability insurance is insufficient or unavailable to cover the amount of any damages that may result from pending and future securities litigation for any reason, we may be required to pay the costs of indemnifying and defending certain of our directors and officers from our cash reserves. Directors' and officers' liability insurance may not be available to us in sufficient amounts to cover any claims made in securities litigation filed against us in the future.

For a full discussion of this lawsuit and of all other material litigation to which we are a party see Item 3, *Legal Proceedings*, on page 16.

### ***Broadcom Litigation Update***

On January 24, 2001, we filed a lawsuit alleging patent infringement in the United States District Court for the Eastern District of Texas, Sherman Division, against Broadcom Corporation. The lawsuit alleged that Broadcom's BCM3415 microchip infringed on our U.S. patent no. 5,737,035. On March 20, 2003, a jury found in favor of Microtune. Specifically, the jury found that certain Broadcom products infringe Microtune's patent and that Broadcom's infringement was willful. On April 17, 2003, a preliminary injunction was issued that prohibits Broadcom from making, using, marketing, selling or distributing in the U.S. any technology found by the jury to infringe our patent. A hearing to determine damages and permanent injunction issues is pending. Broadcom has announced that it intends to appeal the verdict.

On July 15, 2002, Broadcom Corporation filed a lawsuit alleging patent infringement in the United States District Court for the Eastern District of Texas, Sherman Division, against Microtune. The lawsuit alleges that various Microtune products infringe Broadcom's U.S. patent no. 6,377,315. The complaint is seeking monetary damages resulting from the alleged infringement and injunctive relief precluding Microtune from taking any further action that infringes the Broadcom patent. On June 18, 2003 Broadcom filed a Motion to Dismiss this suit against Microtune with prejudice. We did not oppose the Motion to Dismiss.

For a full discussion of these lawsuits, other Broadcom lawsuits against us and all other material litigation to which we are a party see Item 3, *Legal Proceedings*, on page 16.

### **Overview**

Microtune, Inc. designs and markets radio frequency (RF) silicon and subsystem module solutions for the worldwide broadband communications and transportation electronics markets. We also design and market selected Bluetooth wireless connectivity products. Our mission is to develop and sell integrated circuit (IC) and module products and technology for the delivery of broadband video, audio and data to consumers and businesses.

Our expertise in RF, analog and to a lesser extent digital technologies allows us to deliver ICs and complete subsystem solutions (called Modules or MicroModules) that permit the delivery and exchange of broadband information using terrestrial (off-air) and/or cable

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communications systems. We also develop and offer niche products to the Bluetooth wireless communications market.

Our products include tuners, amplifiers, transceivers, upconverters and Bluetooth wireless radio and baseband processors. When integrated into our customers' commercial or consumer equipment, our products permit the transmission and reception of RF signals that contain video, audio and/or data. Our products are used in a range of applications, including cable high-speed internet access, digital and high-definition television, TV on a PC, in-car audio and video, and cable-based digital phone service.

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Today, our products principally are marketed to original equipment manufacturers (OEMs) and distributors in the following two markets:

### Cable and Terrestrial Broadband Communications

This market includes products that send and receive cable and terrestrial broadband signals. Our Cable Broadband products are designed for use in RF electronics from the cable head-end upconverter to consumer access and gateway devices, including cable modems, digital and analog set-top boxes, digital televisions and cable telephony systems. Our Terrestrial Broadband products are designed for use in off-air applications including digital and analog television sets and their companion appliances (VCRs, High Definition Television (HDTV) projection displays, liquid crystal displays (LCDs), digital set-top boxes, digital personal video recorders), and PC/TV multimedia products.

### Transportation Electronics

This market includes products targeted for mobile environments, such as automobile and airline in-flight entertainment systems. Our Transportation Electronics products range from components for traditional AM/FM radio to components for the emerging entertainment and telematics applications that provide value to mobile consumers, including in-car and in-flight video, HD radio (digital radio), and remote data system for traffic avoidance and other services.

## **Business Strategy**

Our mission is to develop and sell IC and module products and technology for the delivery of broadband video, audio and data to consumers and businesses. Key elements of our strategy to accomplish our mission include:

Focusing on RF technology products where our experience, expertise and patent portfolio provide strategic and competitive advantages.

Leveraging our market position and our core technologies in the cable broadband market to provide silicon solutions for emerging digital set-top box, digital television and PC/TV multimedia markets.

Combining our RF expertise and established products to expand our presence in transportation electronics.

Targeting our Bluetooth technology to provide unique solutions in niche applications for cable-free Universal Serial Bus (USB) connectivity.

## **Organization**

To implement our strategy effectively, our design and applications engineering teams are organized into three specialties: Broadband Communications, Transportation Electronics and Bluetooth Wireless. Our sales, finance, legal, operations and human resources teams are

centralized to achieve operational efficiencies.

In the second half of 2002 and again in the second quarter of 2003, responding to market conditions and our desire to reduce our losses and ultimately to achieve profitability, we reduced operational costs and structural expenses. We closed or sold certain design facilities, closed selected sales offices, and eliminated development activity on products with limited near-term revenue potential by implementing a restructuring plan, including staff reductions.

## **Markets**

During the last 10 years, the worldwide reliance on the internet, the transition to digital technologies, the rise of broadband, mobile and wireless communications, and the growing interrelation of TV, PC, cable and the internet have fostered dramatic changes in business and consumer electronics. These drivers have propelled the development of new classes of products, based on innovative technologies, that deliver better and faster communications, and new forms of entertainment and information.

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### ***Broadband Communications***

#### *Cable Broadband*

During the last several years, the worldwide cable industry has evolved from a supplier of analog video programming to a competitive provider of multiple entertainment, information, and telecommunications services. According to the National Cable & Telecommunications Association, from 1996 to year end 2002, U.S. cable operators alone have invested an estimated \$70 billion in a massive upgrade to their infrastructure. The facilities improvements are based on hybrid fiber/coaxial architecture and grounded in digital technology deployed in the cable headend and consumer equipment. The upgrades have created additional bandwidth to deliver consumers more channels, digital and HDTV programming, high-speed data communications, home networking, and two-way interactive services, including digital phone and video-on-demand.

As a part of the upgrade, cable operators have deployed and continue to deploy new classes of digital consumer equipment that allow users to access the range of enhanced services. These consumer end products include:

Cable modems, as single devices, as integrated with PCs, or as integrated in set-top boxes, which enable high-speed Internet service via two-way cable.

Digital interactive set-top boxes which serve as the home access point for a number of services, including digital entertainment channels and a range of emerging applications such as video-on-demand, subscription video-on-demand, interactive program guides, personal video recorders (PVRs) and interactive TV. In some deployments, the digital interactive set-top box is evolving into a home gateway, a multifunctional box designed to serve as the distribution hub for all residential video, voice and data services.

Cable telephony units, which enable digital telephone service to residential and business customers.

The cable industry's adoption of industry standards, including the CableLab® standards for DOCSIS® (cable modems) and its continued support for complementary standards, such as OpenCable (digital set-top boxes), Packet Cable (cable telephony) and CableHome (home networking), has served as an additional catalyst to fuel the deployment of enhanced broadband services. The standards are designed to ensure interoperability between the products of different manufacturers and the head-end equipment of various cable systems. They have stimulated a number of vendors to develop cost-effective, non-proprietary products that can be sold at retail and that can operate efficiently and harmoniously in cable environments.

We provide tuners, amplifiers and transceivers for cable modems, set-top boxes and cable telephony systems, supporting the two-way transmission of data to and from the consumer and the cable operator's headend. In the headend itself, we also provide silicon and module upconverter products for lower power, lower cost and space efficient RF translation for video-on-demand and services.

#### *Terrestrial Broadband*

As digital video transmission has begun in more countries, the number of markets for digital TV (DTV) sets and related peripheral products has grown. The definition of terrestrial digital TV is determined by standards adopted by various countries: the Advanced Television Systems Committee (ATSC) standard is deployed primarily in the United States and the Digital Video Broadcast -Terrestrial (DVB-T) standard is

implemented in Europe and other parts of the world.

As originally conceived, the idea of digital television was to deploy improved bandwidth efficiency techniques to provide either a picture with much greater detail than existing TV or multiple digital video streams within the bandwidth of an existing analog channel. Any digital data, from digital video and sound to Internet data, can be broadcast using digital transmission. Consumers require new kinds of products to receive these

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digital services, and manufacturers continue to try different combinations and options to see what consumers want to buy. These new products include digital TVs, HDTV projection displays and sets, Standard Definition Television (SDTV) sets, LCDs, flat panel sets, digital set-top boxes (that decode the digital signal for display on an analog TV), digital personal video recorders and other TV peripherals.

In the U.S., standards issues have impacted widespread DTV deployment, but in 2002, several actions by the Federal Communications Commission (FCC) and industry organizations were taken to foster the adoption of digital television technology. In August 2002, the FCC adopted a plan to require the installation of off-air DTV tuners in nearly all new digital television sets by 2007. As part of the FCC's five-year plan, the requirement will start with larger, more expensive televisions, and 50% of all digital sets 36 inches and wider must comply with the ruling by July 1, 2004. In addition, all TV interface devices (VCRs, DVD players, etc.) must come equipped with DTV tuners by July 1, 2007.

In December 2002, representatives from the top U.S. cable operators and consumer electronics manufacturers signed an agreement to expedite the deployment of DTV. The agreement, which sets the stage for a national plug-and-play standard between digital television products and digital cable systems, is expected to help speed the transition from analog to digital television and establish much-needed marketplace, technical, and regulatory certainty for the cable and consumer electronics industries. If adopted by the FCC, the new rules will require that digital television sets marketed in the U.S. as cable-ready meet certain criteria.

Even though the U.S. standards have not been fully implemented, consumers' desire to combine big-screen televisions with full surround sound audio systems has been a key factor in driving sales of DTV products. The Consumer Electronics Association published initial year end figures that factory-to-dealer sales of digital television products in 2002 totaled about 2.5 million units and about \$4.2 billion. The 2002 sales surpassed the 2001 total by 73 percent in units and 61 percent in dollars.

The advent of digital broadcast television is expected to keep the market growing for PC/TV products. The PC/TV tuner market has grown steadily during the last few years driven by demand for greater functionality on the PC. The capability to receive digital television is an added catalyst, particularly in Europe and Japan where limited residential space makes using a PC for more than computing functions desirable.

We provide tuners and amplifiers which are essential to the RF tuning and reception of signals for digital television products. Multiple tuners may be required in these products to support picture-in-picture, personal video recording or internet-access applications.

***Transportation Electronics***

Technology convergence and integration have altered the landscape for cable and terrestrial broadband communications and is beginning to impact the automotive and airline industries. In the automotive market, for example, low-cost communications, the Internet and computing technologies are combining with traditional in-vehicle automotive control, display and audio systems to create new applications and potential new markets for in-vehicle entertainment and information. Driven by consumer demands, automotive manufacturers' demands, and environmental and economic considerations, a wealth of new applications are rapidly evolving beyond the conventional car audio system. Grouped loosely into the categories of in-car audio, infotainment and driver information systems, these new applications are expected to gain growing consumer acceptance during the next decade, driving continued market opportunity for providers of these products and services and for suppliers of the underlying technology. In-car audio and infotainment is projected to comprise AM/FM radio, digital sound systems, satellite radio and digital radios and the suite of applications that allow rear-seat passengers to watch TV and video and to play interactive games.

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Driver information systems, the ability to wirelessly send or receive information from a vehicle, embrace a wide variety of applications, including location-specific traffic information, route planning services and automatic emergency calling. Telematics is a communications technology that provides security, information and entertainment to vehicles. With new classes of telematics devices and interfaces, an even broader range of services is projected to be delivered to the vehicle and its related electronic subsystems. Telematics-equipped vehicles are projected to provide step-by step driving directions, vehicle diagnostics, service station, restaurant or ATM locator information, automatic toll paying, Internet access, email access, keyless garage door entry and activation of in-home automation, among others.

Major car manufacturers around the world are already beginning to deploy multimedia entertainment and driver information systems. The market for these products is still highly fragmented with revenue generation largely confined to the sale of specific systems, equipment, technology and applications development. Growth in this market is expected as automakers begin offering a range of services in more vehicles, moving from luxury cars into mid-priced models. IMS Research forecasts that the worldwide market for in-car audio, infotainment and driver information systems will grow from an estimated 93.4 million units in 2001 to 152.4 million units in 2008, with cumulative unit shipments totaling 980.9 million.

Data delivered via RF communications is integral to these emerging automotive applications, and we provide enabling technology, including AM/FM tuners, transceivers, telematics tuners, digital radio front-ends, antenna amplifiers, and in-car TV tuners, that are incorporated into automotive electronics subsystems to support these applications.

## **Products**

The applications associated with our target broadband communications and transportation electronics markets require levels of RF performance, power efficiency, functionality and integration that had not been met adequately by prior traditional RF solutions. Our products are engineered to address the complex, high-performance RF requirements of broadband reception and exchange of information.

We classify our products into two groups: ICs and manufacturing-ready, subsystem-level solutions (called Modules or MicroModules).

### ***Integrated Circuit Products***

We offer a silicon product portfolio that includes:

#### ***MicroTuner Single-Chip Tuners***

Our premier products are our MicroTuner single-chip tuners. These highly integrated solid-state tuners, first introduced in 1999, were the world's first broadband television tuners with all active components implemented in a single microcircuit. We believe our MicroTuner chips are the only single chip silicon tuners in high volume production today that incorporate all of the active elements of a RF broadband tuner, including low-noise and intermediate frequency amplifiers, critical for system performance, and varactors, which eliminate the need for a high-voltage power supply. Our MicroTuner chips are based on both a patented architecture and multiple patented integrated circuit implementations.

We recently won our first jury verdict in our first patent lawsuit against Broadcom Corporation. In the lawsuit we asserted that Broadcom willfully infringed our patent entitled "highly integrated television tuner on a single microcircuit" and the jury agreed. On April 17, 2003 a preliminary injunction was issued that prohibits Broadcom from making, using, marketing, selling or distributing in the U.S. any technology found by the jury to infringe our patent. We expect that a permanent injunction will be issued.

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### *Silicon Amplifiers*

We offer a family of amplifiers, including our upstream amplifiers, our Intermediate Frequency (IF) amplifiers and a Broadband amplifier. Our amplifiers are companion products to our single-chip tuners.

Our amplifiers enable or support a variety of specialized functions, including high-speed upstream cable communications and the distribution of a broadband signal across multiple tuners. They support these functions by conditioning signals within the RF front end and boosting them for distribution through the system. They also enable two-way communications capability in cable access applications and downstream amplification in automotive radio and in-car TV applications.

### *VideoCaster Chipset*

In December 2001, we introduced our first upconverter solution, the VideoCaster chip set and MicroModule, for cable video-on-demand (VOD) applications.

With the VideoCaster product family, we believe we achieved a technological and size breakthrough in upconverters. By developing three silicon chips to replace most discrete parts contained in other upconverters, we reduced the size of the RF electronics compared with the smallest known upconverter. Our VideoCaster chip set converts the IF channel inputs to the programmable RF frequency for up to 10 streams of standard definition digital video.

### *CableFree USB Products*

We have recently retargeted our Bluetooth efforts to emphasize non-traditional Bluetooth applications where we believe we have either unique capabilities or specific expertise. Our most recently developed Bluetooth products are designed to eliminate USB cables connecting certain printers and PCs in the home or office environment.

### *Subsystem-Level RF Solutions: Modules and MicroModules*

Our subsystem-level products, called Modules or MicroModules, are RF solutions, consisting of tuner and/or transmit/receive functions that are pre-assembled into tested, manufacturing-ready RF front ends. Our subsystem solutions are available for multiple applications, including cable modem, cable telephony, PC/TV multimedia, automotive AM-FM tuning, analog and digital TV, and cable headend upconverters (VideoCaster MicroModule).

Our MicroModules contain our unique silicon components. We package our chips, including amplifiers and upconverters, with other RF functionality into small, modular form factors. Our Modules and MicroModules are pre-configured and pre-tested for ready placement on

motherboards, printed circuit boards or chassis. As a competitive advantage to other modular solutions, our silicon components in the MicroModules provide high levels of functional integration.

**Technology, Intellectual Property, Research and Development**

We were founded in 1996 on a commitment to RF IC innovation. We have established a track record of introducing advanced products, based on our pioneering RF IC technology, that address emerging markets and serve customers in existing markets.

As of June 30, 2003, we had more than 100 RF and communications systems technical personnel. Our technical team represents one of our most important strategic and competitive assets. Our team is comprised of RF and analog IC design experts, systems engineers and application engineers. Our team enables us to produce

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differentiated RF IC and subsystem module products for applications in our targeted markets. Team members are located in design centers around the world, including Plano, TX, San Diego, CA, and Ingolstadt, Germany.

We believe we have a strong intellectual property portfolio. We have and will vigorously pursue and maintain protection for the proprietary technology used in our products. Currently, we hold 25 issued U.S. patents and have more than 50 additional U.S. patent applications pending. Our issued U.S. patents begin to expire in 2015.

Our issued patents include those for a highly integrated television tuner on a single microcircuit and a broadband integrated television tuner. We have also filed patent applications for our core RF technology, VideoCaster chipset and CableFree USB products. Our other patents protect various aspects of our RF, analog and digital baseband technology at the broad architectural, circuit and building-block level.

## **Sales and Marketing**

As of June 30, 2003, our worldwide sales organization consisted of over 30 employees with offices located throughout the U.S. (Plano, TX, Huntsville, AL, Atlanta, GA, San Jose, CA and San Diego, CA) and in regional centers around the world (Ingolstadt, Germany, Taipei, Taiwan, Tokyo, Japan and Seoul, Korea). Our sales organization consists not only of the technical sales, service and customer support team, but also a field application engineering staff that is involved with customers during all phases of design and production. This field applications engineering team is located throughout our worldwide offices. We also support customers with resources from our technical team personnel in our Plano, Ingolstadt, and San Diego design centers.

We centralize and manage sales for all of our products across each of our target markets under one worldwide sales organization. We also sell our products to a network of distributors and through sales representatives located around the world.

For our net revenue information by geographic locations and significant customers, see Note 14 of the Notes to Consolidated Financial Statements.

## **Customers**

We market and sell our ICs and modules directly to OEMs of communications, consumer electronics, multimedia and transportation electronics products, to third-party electronic manufacturing service providers, and to distributors. We engage with customers at multiple levels within their organization, provide design and systems support, and align product roadmaps to meet their product requirements.

We supplied our silicon and systems products to more than 125 customers worldwide during the last 15 months including the following:

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*Broadband Communications:* ARRIS, ATI, Askey, Ambit, Cisco, EchoStar, Hauppauge, Hitron, Hughes Network Systems, Motorola, Netgem, Pace, Pinnacle, Samsung, Scientific Atlanta, Tellabs, and Terayon

*Transportation Electronics:* Daimler Chrysler, Delphi/Fuba Automotive, Harman Becker Automotive, Nippon Sheet Glass, Panasonic and Rockwell Collins.

### **Manufacturing**

We use subcontractors for wafer production and IC packaging. This allows us to eliminate the high capital requirements of owning and operating semiconductor fabrication and packaging facilities. It also enables us to focus on the design of our IC products, where we believe we can gain greater competitive advantage.

We have established relations with wafer foundries, including IBM Microelectronics, X-FAB, and TSMC, to help ensure our future demands are in line with our subcontractors' manufacturing technology roadmaps and capacities. These foundries offer mature CMOS and BiCMOS production processes, as well as advanced silicon germanium (SiGe) process technology.

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We use Amkor in Korea and in the Philippines, as well as United Test & Assembly Center (UTAC) in Singapore and Carsem Semiconductor (Carsem) in Malaysia for assembly and test, and we use ASE (Korea) for test. We are also in the process of qualifying ASE (Korea) for assembly. We use King Yuan Electronics in Taiwan to perform testing on certain of our silicon wafers. We use BridgePoint Technical Manufacturing in Austin, TX for tape and reel packaging. We also perform RF testing at our facility in Plano, TX.

We recently sold our manufacturing facility in the Philippines, where we built almost all our Module and MicroModule subsystem solutions, to Three-Five Systems, Inc (TFS). As a result we subcontract almost all our Module and MicroModule subsystem manufacturing to TFS.

## **Competition**

The semiconductor industry, in general, and the markets in which we compete, in particular, are intensely competitive and are characterized by rapid technological change, evolving industry standards and price erosion. Many of our competitors are larger diversified companies with substantially greater financial resources than we have. Some of our competitors are also customers who have internal semiconductor design and manufacturing capability. We also compete with smaller, emerging companies whose strategy is to sell products into specialized markets or to provide a portion of the products or product capabilities that we offer. We expect competition to intensify as current competitors expand their product offerings and new competitors enter our markets.

Although the specific basis on which we compete vary by market, we believe that the principal factors common to all our markets are:

Conformity to industry standards;

Performance improvements;

Price reductions;

Differentiating product features;

Time-to-market for new products;

Quality and reliability; and

Adaptability and flexibility to meet customers and target markets requirements.

*Broadband Communications*

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Our major RF tuner, amplifier and transceiver competitors in the broadband communications market include Anadigics, Analog Devices, Alps, Broadcom, Conexant, Maxim, Motorola, Panasonic and Philips Electronics. Other companies have announced silicon tuners, but we believe they are not yet in production with their products or their production status is unknown to us, including Integrant, ISG Broadband, LSI Logic, SiGe Semiconductor, Sony, and Zarlink.

### *Transportation Electronics*

Tuner competitors in the transportation electronics market include Alps, Mitsumi, Panasonic, Philips Sanshin, Siemens/VDO, and Toko.

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### **Environmental Matters**

International, federal, state and local requirements relating to the discharge of substances into the environment, the disposal of hazardous wastes and other activities affecting the environment may have an impact on our manufacturing operations. We believe that we are in material compliance with applicable environmental laws and regulations. To date, compliance with environmental requirements and resolution of environmental claims have been accomplished without material effect on our liquidity or capital resources.

### **Employees**

As of June 30, 2003, we had a total of 221 employees worldwide, including 121 in research and development, 41 in sales and marketing and 59 in operations, finance and administration. Of these employees, 139 were located in the United States.

## **ITEM 2. PROPERTIES**

Our principal offices and corporate headquarters are located in Plano, TX. Our Plano facilities consist of approximately 44,000 square feet, and the lease will expire in 2005. In San Diego, CA we lease approximately 14,200 square feet of space. We use the San Diego facility primarily for our Bluetooth wireless design center. The design center for our transportation business is in Ingolstadt, Germany, where we lease approximately 25,000 feet of space that will expire in 2021. As of December 31, 2002, we lease approximately 60,000 square feet in Manila, Philippines, where our previous manufacturing facility is located, under leases that expire in 2004. We also have sales and technical support offices in San Jose, California, Huntsville, Alabama, Atlanta, Georgia, Japan, Taiwan and Korea. We believe our facilities are adequate for our current and near-term needs, and that we will be able to locate additional facilities as needed. See Note 9 of the financial statements for more information about our lease commitments.

## **ITEM 3. LEGAL PROCEEDINGS**

From time to time, we may be involved in routine legal proceedings, as well as demands, claims and threatened litigation that arise in the normal course of our business. The ultimate amount of liability, if any, for any pending claims of any type (either alone or combined) may materially and adversely affect our financial position, results of operations or liquidity. Moreover, the ultimate outcome of any litigation is uncertain. Any outcome whether favorable or unfavorable, may materially and adversely affect us due to legal costs and expenses, diversion of management resources and other factors. Except as described below, we are not currently a party to any material litigation.

### *Intellectual Property Litigation*

On January 24, 2001, we filed a lawsuit alleging patent infringement in the United States District Court for the Eastern District of Texas, Sherman Division, against Broadcom Corporation. The lawsuit alleged that Broadcom's BCM3415 microchip infringes on our U.S. Patent No. 5,737,035. In our complaint, we sought monetary damages resulting from the alleged infringement as well as injunctive relief precluding Broadcom from taking any further action that infringes our patent. On March 20, 2003, a jury found in favor of Microtune. The jury found that

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certain Broadcom products infringe Microtune's patent and that the infringement was willful. On April 17, 2003 a preliminary injunction was issued that prohibits Broadcom from making, using, marketing, selling or distributing in the U.S. any technology found by the jury to infringe our patent. A hearing to determine damages and permanent injunction issues is pending. Broadcom has announced that it intends to appeal the verdict.

On July 15, 2002, Broadcom Corporation filed a lawsuit alleging patent infringement in the United States District Court for the Eastern District of Texas, Sherman Division, against Microtune. The lawsuit alleges that various Microtune products infringe Broadcom's U.S. Patent No. 6,377,315. The complaint is seeking monetary

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damages resulting from the alleged infringement as well as injunctive relief precluding Microtune from taking any further action that infringes the U.S. Patent No. 6,377,315. On June 18, 2003 Broadcom filed a Motion to Dismiss this suit against Microtune with prejudice. We did not oppose the Motion to Dismiss.

On January 24, 2003, Broadcom Corporation filed a lawsuit alleging patent infringement in the United States District Court for the Northern District of California against Microtune. The lawsuit alleges that various Microtune products infringe Broadcom's U.S. Patent Nos. 6,445,039B1, 5,682,379 and 6,359,872. Two of these patents are also the subject of the March 3, 2003 action described below. The complaint seeks monetary damages resulting from the alleged infringement as well as injunctive relief precluding Microtune from taking any further action that infringes any of the listed patents. No scheduling order has been entered in this case. While we intend to vigorously defend this suit, we are unable at this time to determine whether the outcome of this litigation will have a material impact on our business prospects, results of operations or financial condition in any future period.

On March 3, 2003, Broadcom Corporation filed a complaint with the U.S. International Trade Commission (ITC) alleging patent infringement by Microtune products of Broadcom's U.S. Patent Nos. 6,445,039B1 and 5,682,379, which are also the subject of the lawsuit Broadcom filed on January 24, 2003 described above. The complaint seeks permanent injunctive relief excluding from entry into the United States the accused Microtune products. The ITC has appointed Administrative Law Judge Sidney Harris to schedule and hold an evidentiary hearing and make an initial determination. We are unable at this time to determine whether the outcome of the investigation will have a material impact on our business prospects, results of operations or financial condition in any future period.

On April 24 2003, Broadcom Corporation filed a *Complaint For Declaratory Judgment of Patent Noninfringement* in the United States District Court for the Eastern District of Texas, Sherman Division, against Microtune. Broadcom is alleging that their BCM3416 chip does not infringe our U.S. Patent No. 5,737,035. While we intend to vigorously oppose this suit, we are unable at this time to determine whether the outcome of this litigation will have a material impact on our results of operations or financial condition in any future period.

### *Anti-Trust Litigation*

On February 27, 2003, we filed a lawsuit alleging anti-competitive and monopolistic conduct, as well as restraint of trade conduct in violation of the Texas Anti-Trust Act, in the District Court of Williamson County, Texas, against Broadcom Corporation. On March 28, 2003 the lawsuit was removed to the United States District Court for the Western District of Texas, Austin Division. The lawsuit alleges that Broadcom engaged in various illegal anti-competitive activities, including bundling its tuner together with its demodulator chips, in attempts to exclude Microtune and other competitors from a substantial share of the cable modem market. In our complaint, we seek injunctive relief and monetary damages resulting from the alleged unlawful conduct, and treble damages for willful anti-competitive and monopolistic conduct. We are unable at this time to determine whether the outcome of the litigation will have a material impact on our business prospects, results of operations or financial condition in any future period.

### *Securities Litigation*

Starting on July 11, 2001, multiple purported securities fraud class action complaints were filed in the United States District Court for the Southern District of New York. We are aware of at least three such complaints: *Berger v. Goldman, Sachs & Co., Inc. et al.*; *Atlas v. Microtune et al.*; and *Ellis Investments Ltd. v. Goldman Sachs & Co., Inc. et al.* The complaints are brought purportedly on behalf of all persons who purchased our common stock from August 4, 2000 through December 6, 2000 and are related to *In re Initial Public Offering Securities Litigation*. The Atlas complaint names as defendants Microtune, Douglas J. Bartek, our former Chairman and Chief Executive Officer, Everett

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Rogers, our former Chief Financial Officer and Vice President of Finance and Administration, and several investment banking firms that served as underwriters of our initial public offering. Microtune, Mr. Bartek and Mr. Rogers were served with notice of the Atlas complaint on

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August 22, 2001, however, they have not been served regarding the other referenced complaints. The Berger and Ellis Investment Ltd. complaints assert claims against the underwriters only. The complaints were consolidated and amended on May 29, 2002. The amended complaint alleges liability under §§ 11 and 15 of the Securities Act of 1933 (1933 Act Claims) and §§ 10(b) and 20(a) of the Securities Exchange Act of 1934 (1934 Act Claims), on the grounds that the registration statement for our initial public offering did not disclose that (1) the underwriters had agreed to allow certain of their customers to purchase shares in the offering in exchange for excess commissions paid to the underwriters, and (2) the underwriters had arranged for certain of their customers to purchase additional shares in the aftermarket at pre-determined prices. The amended complaint also alleges that false analyst reports were issued. No specific amount of damages is claimed. We are aware that similar allegations have been made in other lawsuits filed in the Southern District of New York challenging over 300 other initial public offerings and secondary offerings conducted in 1998, 1999 and 2000. Those cases have been consolidated for pretrial purposes before the Honorable Shira A. Scheindlin. On February 19, 2003, the Court ruled on all defendants' motions to dismiss. The Court denied the motions to dismiss the 1933 Act Claims. The Court did not dismiss the 1934 Act Claims against us and other issuers and underwriters.

We have decided to accept a settlement proposal presented to all issuer defendants. In this settlement, plaintiffs will dismiss and release all claims against the Microtune defendants, in exchange for a contingent payment by the insurance companies collectively responsible for insuring the issuers in all of the IPO cases, and for the assignment or surrender of certain claims the Company may have against the underwriters. The Microtune defendants will not be required to make any cash payments in the settlement, unless the *pro rata* amount paid by the insurers in the settlement exceeds the amount of the insurance coverage, a circumstance which we do not believe will occur. The settlement will require approval of an unspecified percentage of issuers by July 31, 2003. The settlement will also require approval by the Court, which cannot be assured, after class members are given the opportunity to object to the settlement or opt out of the settlement.

Beginning in February 2003, Microtune, our former Chairman of the Board and Chief Executive Officer, Douglas J. Bartek, our former Chief Financial Officer and Vice-President of Finance and Administration, Everett Rogers, our former President and Chief Operating Officer, William L. Housley, and our present Chief Financial Officer and General Counsel, Nancy A. Richardson, were named as defendants in several class action lawsuits alleging violations of federal securities laws and regulations. The claims of the plaintiffs in the various lawsuits include that the defendants violated §§ 10(b) and 20(a) of the Securities Exchange Act of 1934, as well as SEC Rule 10b-5, resulting in damages to persons who purchased, converted, exchanged, or otherwise acquired our common stock between April 23, 2001 and February 20, 2003, inclusive. The plaintiffs' specific allegations include that the defendants misrepresented material facts and omitted to state material facts necessary to make other statements made not misleading, and that these misrepresentations or omissions had the effect of artificially inflating Microtune's stock price. At this time, the alleged misrepresentations and omissions include allegations that: Microtune materially overstated revenue by recognizing certain sales immediately as revenue when deferred revenue recognition would have been more appropriate; Microtune failed to disclose that a material portion of its revenue had not been paid for or had not been paid in cash; Microtune lacked adequate internal controls and was therefore unable to ascertain its own true financial condition; Microtune's margins were being squeezed by a dramatic decline in the price of low-technology products; Microtune's product advantages were grossly overstated as Microtune was experiencing shortfalls due to the successes of Broadcom and Conexant; Microtune's customers agreed to take product only after receiving generous credits and/or were unable to pay for product; and the value of Microtune's acquisition of Transilica was overstated by more than \$50 million; the financial statements in Microtune's SEC Form 10-Q submissions did not present, in all material respects, Microtune's true financial condition, and did not reflect all adjustments that were necessary for a fair statement of the periods presented; Microtune's SEC Form 10-Q submissions were not presented in conformity with GAAP or principles of fair reporting; Microtune was shipping non-compliant product to customers to make its quarterly earnings and assuring the customers that it would replace non-compliant product in the future; and Microtune offered customers extended payment terms in exchange for accepting product the customers did not need or want. The relief sought by the plaintiffs in the various lawsuits, both individually and on behalf of shareholders, includes damages, interest, costs, fees, and expenses. The defendants have not yet filed a responsive pleading in

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any of the lawsuits. The actions have been consolidated into one case and lead plaintiffs have been appointed. We intend to vigorously defend these suits. We are unable at this time to determine whether the outcome of the litigation will have a material impact on our results of operations or financial condition in any future period. Furthermore, there can be no assurance regarding the outcome of the litigation or any related claim for indemnification or contribution.

If our directors and officers liability insurance is insufficient or unavailable to cover the amount of any damages that may result from pending and future securities litigation for any reason, we may be required to pay the costs of indemnifying and defending certain of our directors and officers from our cash reserves. Directors and officers liability insurance may not be available to us in sufficient amounts to cover any claims made in securities litigation filed against us in the future.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not applicable.

**Table of Contents****PART II****ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

Our common stock is quoted on the pink sheets under the symbol TUNE.PK. Securities that trade on the pink sheets, including our common stock, may be subject to higher transactions costs for trades and have reduced liquidity compared to securities that trade on the NASDAQ and other organized markets and exchanges. Before July 7, 2003, we traded on the NASDAQ Stock Market. The following table shows the range of high and low sale prices reported on the NASDAQ Stock Market for the periods indicated. On June 30, 2003, the closing price of our common stock was \$3.18.

	Year Ended December 31,			
	2002		2001	
	High	Low	High	Low
First Quarter	\$ 29.28	\$ 11.41	\$ 17.63	\$ 7.13
Second Quarter	\$ 15.95	\$ 7.61	\$ 22.00	\$ 4.81
Third Quarter	\$ 8.19	\$ 2.41	\$ 21.99	\$ 9.07
Fourth Quarter	\$ 4.53	\$ 1.60	\$ 25.27	\$ 10.21

On April 17, 2003, we received a NASDAQ Staff Determination stating that our failure to comply with the filing requirements for continued NASDAQ listing subjected our securities to delisting from the NASDAQ Stock Market. The determination was a result of our delinquency in filing this annual report on Form 10-K/A. On May 16, 2003, in an oral hearing before a NASDAQ Listing Qualifications Panel to review the NASDAQ Staff Determination, we presented our plan for compliance with NASDAQ filing requirements and requested a stay from the delisting of our securities. We were granted a stay until June 16, 2003. We were not, however, able to become compliant with our reporting requirements by that time.

As a result, we were delisted from the NASDAQ Stock Market effective July 7, 2003. We sent notice of our intent to appeal this decision on July 11, 2003. There can be no assurance that our appeal to the NASDAQ Listing and Hearing Review Council will be successful. Because we are not current in our periodic reporting requirements under the Securities Exchange Act of 1934, as amended, we are not currently eligible to trade on the OTC Bulletin Board.

**Stockholders**

As of June 30, 2003, there were 50,332,277 shares of our common stock outstanding held by 355 holders of record, and approximately 7,100 beneficial holders.

We believe factors such as quarterly fluctuations in results of operations, announcements by us, our competitors, or our customers, technological innovations, new product introductions, governmental regulations, litigation or changes in earnings estimates by analysts may cause the market price of our common stock to fluctuate, perhaps substantially. In addition, the stock prices of many technology companies fluctuate widely for

reasons that may be unrelated to their operating results. The broad market, industry fluctuations and high transactions costs associated with a relatively illiquid market upon which our stock trades may adversely affect the market price of our common stock.

**Dividends**

We have never paid any cash dividends on our common stock. Although there can be no assurance, we currently anticipate that we will retain future earnings, if any, for use in our business. We do not anticipate paying any cash dividends in the foreseeable future.

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**Table of Contents****Recent Sales of Unregistered Securities**

During the three-year period ended December 31, 2002, we have issued and sold securities in unregistered transactions to a limited number of persons as described below (as adjusted to reflect a 2-for-1 stock split of our common stock effective as of January 18, 2000). None of these unregistered transactions involved any underwriters, underwriting discounts or commissions, or any public offering. We believe that each such transaction was exempt from the registration requirements of the Securities Act of 1933, by virtue of Section 4(2) thereof, Regulation D and/or Regulation S promulgated thereunder, or Rule 701 pursuant to compensatory benefit plans and contracts relating to compensation as provided under Rule 701. In each transaction in which it was required to comply with applicable securities laws, the recipients of securities represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof. Appropriate legends were affixed to the share certificates and instruments issued in those transactions. All recipients had adequate access to information about us.

- (a) In October 2001, we issued an aggregate of 210,000 shares of our common stock in connection with our purchase of all of the outstanding shares of SPaSE Holding B.V., a Netherlands private company with limited liability, which shares were valued at approximately \$2.1 million at the time of the transaction.
- (b) In November 2001, we issued an aggregate of 7,206,125 shares of our common stock in connection with our acquisition of Transilica Inc., which shares were valued at approximately \$130.1 million at the time of the transaction. In addition, we assumed options that became exercisable for up to 831,967 shares of our common stock, which were valued at approximately \$13.9 million at the time of the transaction. The shares of our common stock issued in the acquisition were registered for resale on a Registration Statement on Form S-3 (File No. 333-75412) filed with the SEC, which became effective on December 28, 2001. The options assumed and the underlying shares of our common stock issuable upon exercise of such options were registered on a Registration Statement on Form S-8 (File No. 333-74768), filed with the SEC which became effective on December 7, 2001.
- (c) We issued an aggregate of 680,215 shares of our common stock during 2000 to our employees and consultants at a range of \$0.025 to \$4.95 per share upon the exercise of stock options issued under our 1996 Stock Option Plan, for an aggregate purchase price of \$235,790.
- (d) We granted options to purchase an aggregate of 5,771,150 shares of our common stock during 2000 to our employees at per share exercise prices ranging from \$0.875 to \$38.00.
- (e) In June 2000, we issued an aggregate of 800,000 shares of our Series F preferred stock at \$12.00 per share for an aggregate purchase price of \$9.6 million to four of our customers.
- (f) In January 2000, we granted three employees options to purchase 330,000 shares of our Series E preferred stock at an exercise price of \$16.00 per share.
- (g) In January 2000, we issued an aggregate of 3,318,513 shares of our Series E preferred stock and warrants to purchase 2,212,342 shares of our common stock at a nominal exercise price to HMTF Temic/Microtune Cayman, L.P. and TIN Vermögensverwaltungsgesellschaft in exchange for all the outstanding shares of HMTF Acquisition (Bermuda), Ltd., which securities were valued at, in the aggregate, approximately \$63.1 million.

We registered the initial public offering of our common stock, par value \$0.001 per share, on a Registration Statement on Form S-1 (File No. 333-36340) filed with the SEC which was declared effective on August 4, 2000. The offering closed on August 9, 2000. The managing underwriters of the offering were Goldman Sachs, Chase H&Q, SG Cowen and Bear, Stearns & Co., Inc. We sold a total of 4.6 million shares of our common stock in the offering at a price of \$16.00 per share, resulting in gross proceeds of \$73.6 million. The underwriting discount was \$5.2 million and the other expenses related to the offering totaled approximately \$1.6 million.

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We registered an offering of up to \$250 million of our securities on a Registration Statement on Form S-3 (File No. 333-67850) filed with the SEC in August 2001. On December 7, 2001 we filed a prospectus supplement in connection with the sale of 5,000,000 shares by us and the sale of 2,000,000 shares by selling stockholders of

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our common stock, which was declared effective on December 14, 2001. On December 18, 2001 we sold 5 million shares of our common stock pursuant to the prospectus supplement at a price of \$23.00 per share for net proceeds to us of approximately \$109.3 million. The managing underwriters of the offering were Salomon Smith Barney, JP Morgan, SG Cowen, and Prudential Securities. The underwriting discount was \$5.75 million and the other expenses related to the offering totaled approximately \$329,000. We withdrew our Form S-3 (File No. 333-67850) by filing a post effective amendment to that filing with the SEC on February 27, 2003.

From time to time, we have applied a portion of net proceeds from our public offerings toward funding operations, capital expenditures and acquisitions. We are currently investing the remaining proceeds of our public offerings in interest bearing, investment-grade securities for future use.

For information regarding stock-based compensation awards outstanding and available for future grants, see Item 12, *Equity Compensation Plan Information*.

**ITEM 6. SELECTED FINANCIAL DATA**

The following table shows our audited consolidated financial information for the past five fiscal years. The comparability of the information is affected by a variety of factors, including acquisitions and dispositions of businesses and restructuring costs. To better understand the information in the table, investors should read *Management's Discussion and Analysis of Financial Condition and Results of Operations* in Item 7, and our Consolidated Financial Statements and Notes in Item 8. Our historical financial results are not necessarily indicative of results to be expected for any future period.

	Year Ended December 31,				
	2002(1)	2001(2)(3)	2000(3)	1999	1998
	(Restated)				
<b>Consolidated Statements of Operations Data:</b>					
<b>(In thousands, except per share data)</b>					
Net revenue	\$ 65,806	\$ 55,528	\$ 70,829	\$	\$
Gross margin	7,918	14,981	24,460		
Loss from operations	(183,725)	(67,457)	(30,759)	(9,090)	(4,059)
Net loss before preferred stock dividends	(182,862)	(67,219)	(31,794)	(8,508)	(3,487)
Preferred stock dividends					(811)
Net loss	(182,862)	(67,219)	(31,794)	(8,508)	(4,298)
Basic and diluted loss per common share (4)	\$ (3.50)	\$ (1.67)	\$ (1.57)	\$ (1.34)	\$ (1.04)
	December 31,				
	2002(1)	2001(2)(3)	2000(3)	1999	1998
	(Restated)				
<b>Consolidated Balance Sheet Data:</b>					
<b>(In thousands)</b>					
Cash and cash equivalents	\$ 106,278	\$ 173,149	\$ 77,650	\$ 20,129	\$ 7,868
Working capital	102,639	173,486	90,901	19,643	7,186

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Total assets	157,096	332,353	153,031	22,277	10,190
Total stockholders equity	130,689	306,758	132,107	21,605	9,508

- (1) The consolidated results of operations and balance sheet data for 2002 reflect the effects of a goodwill impairment charge of \$50.7 million, a \$46.9 million charge for impairment of intangible assets associated with our wireless business, a charge to cost of revenue of approximately \$12.8 million representing our estimate of excess Bluetooth wireless inventories and non-cancelable purchase obligation for wireless inventories at December 31, 2002, and restructuring costs of \$11.4 million. See Notes 1, 5, 7 and 13 of our Consolidated Financial Statements for additional information regarding these charges.
- (2) For more information regarding our restatement of our Consolidated Financial Statements for the year ended December 31, 2001, see Note 2 of our Consolidated Financial Statements.
- (3) Our results of operations and financial position have been significantly impacted by our acquisition of Transilica Inc. in November of 2001, and our acquisition of HMTF Acquisition (Bermuda) Ltd., f/k/a Temic Telefunken, in January 2000. See Note 3 of our Consolidated Financial Statements for additional information regarding these acquisitions.
- (4) See Note 1 of our Consolidated Financial Statements for a description of how the number of shares used to calculate net loss per common share is determined.

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### **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

NOTE: For a more complete understanding of our financial condition and results of operations, and some of the risks that could affect future results, see *Factors Affecting Future Operating Results and Stock Price* in Item 7 and *Quantitative and Qualitative Disclosures About Market Risks* in Item 7A. This section should also be read in conjunction with our Consolidated Financial Statements and related Notes in Item 8.

Unless otherwise noted, all references to our quarterly results and our 2001 annual results in this Item 7, *Management Discussion and Analysis of Financial Condition and Results of Operations*, will refer to our restated results.

### **FINANCIAL INFORMATION**

#### ***Restatements of Financial Statements***

In February 2003 our Audit Committee, under the direction of our Board of Directors, retained John M. Fedders, a former Director of the Division of Enforcement of the SEC, as independent counsel to inquire into the events related to significant negative adjustments to preliminarily recorded revenue for products that we shipped in the third and fourth quarter of 2002. The inquiry was subsequently expanded to cover all of 2001 and 2002, and concluded in July 2003.

As a result of the inquiry's preliminary findings, our Board determined to restate our previously reported financial results for 2001 and our quarters ended September 30, 2001, December 31, 2001, March 31, 2002, June 30, 2002 and September 30, 2002. Based on the preliminary findings, our Board also determined to revise our financial results that were reported via a press release on February 20, 2003, and a related current report on Form 8-K filed with the SEC.

The aggregate annual effect of the restatements on our revenue is to decrease our 2001 revenue by 12%, from \$63.1 million to \$55.5 million. The aggregate effect of the restatements on our previously reported financial results for the first nine months of 2002 is to decrease revenue by 18%, from \$65.4 million to \$53.8 million. The restatements increase our previously reported 2001 net loss by 5%, from \$64.2 million to \$67.2 million. In addition, the restatements increase our previously reported net loss for the first nine months of 2002 by 10%, from \$44.3 million to \$48.6 million.

As a result of restating our previously reported five quarters beginning with the quarter ended September 30, 2001, our quarterly net revenue trends have changed significantly from those trends previously reported. We previously reported five quarters of sequential net revenue growth beginning with the quarter ended September 30, 2001. However, as a result of our restatements, on a sequential quarterly basis our net revenue decreased in the third and fourth quarters of 2001, increased in the first and second quarters of 2002, and decreased in third and fourth quarters of 2002.

#### **Overview**

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We design, manufacture and market radio frequency (RF) silicon and subsystem solutions for the worldwide broadband communications, transportation electronics and selected Bluetooth wireless connectivity markets. Since inception we have incurred significant losses, and as of December 31, 2002, we had an accumulated deficit of approximately \$296.9 million. Our operating history and our business risks, including those risks set forth under the caption *Factors Affecting Future Operating Results and Stock Price* in Item 7 and under the caption *Quantitative and Qualitative Disclosures About Market Risk*, in Item 7A, make the prediction of future results of operations difficult. As a result, there can be no assurance that we will achieve or sustain revenue growth or profitability.

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The time lag between product availability and volume shipment can be significant due to the sales process for our products that includes customer qualification of our products. This delay can be from six months to as long as four years, during which we continue to develop our technology.

We have invested heavily in research and development of our RF integrated circuits and subsystems technology. We expect to continue our investment in these areas to further develop our RF products. This investment may include the continued recruitment of RF and analog integrated circuit designers and systems engineers, acquisition of test and development equipment and software development tools for the expansion of our product lines through research and development. As a result, we may continue to incur substantial losses from operations for the foreseeable future. Furthermore, there can be no assurance that our research and development efforts will result in the timely development and commercial release of products that achieve market acceptance.

We use IBM, TSMC and X-FAB to manufacture our wafers, and Amkor and Carsem to assemble our integrated circuits. We perform final testing, packaging and/or shipping of our integrated circuits at our facility in Plano, TX and overseas at Amkor, Carsem, ASE and UTAC. We use BridgePoint Technical Manufacturing for tape and reel packaging. In the past we assembled and calibrated nearly all of our Modules and MicroModules in our factory in Manila, Philippines. We sold assets related to our Manila operations to Three-Five Systems (TFS) on March 27, 2003, and we have recently begun using TFS for nearly all of our assembly and calibration functions in the near to intermediate term. Testing of our automotive tuner modules is also performed at a facility in Huntsville, Alabama and at AMB Electric in Vohburg, Germany.

## **Non-GAAP Financial Information**

Our quarterly unaudited financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). In the past, we have also disclosed and discussed certain non-GAAP financial information in our related earnings releases and investor conference calls. This non-GAAP financial information excludes certain charges, including those for stock option compensation, impairment of goodwill, acquired in-process research and development and amortization of intangible assets and goodwill, and restructuring expenses. In each of our quarterly earnings releases and investor conference calls from the third quarter of 2001 through the third quarter of 2002, we provided a reconciliation of non-GAAP financial information to GAAP financial information. We believe our disclosure of non-GAAP financial information help investors more meaningfully evaluate the results of our ongoing operations. However, when we provide non-GAAP financial information we urge investors to carefully review our financial information prepared in accordance with GAAP. This information is included as part of our quarterly reports on Form 10-Q, our annual reports on Form 10-K, and in our earnings releases. Furthermore, investors should compare this GAAP financial information with the non-GAAP financial results disclosed in our quarterly earnings releases and investor conference calls, and read the associated reconciliation. In earnings releases and investor conference calls related to the financial results contained herein and related to our future financial results, we may or may not provide non-GAAP financial information.

## **CRITICAL ACCOUNTING POLICIES**

Our discussion and analysis of our financial condition and results of operations are based on our Consolidated Financial Statements, which have been prepared in accordance with GAAP. Note 1 of our Consolidated Financial Statements describes the significant accounting policies essential to our Consolidated Financial Statements. Preparation of our financial statements requires estimates, judgments and assumptions. 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 these estimates, judgments and assumptions 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 may be affected.



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In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require our judgment in its application. There are areas in which our judgment in selecting among available alternatives would not produce a materially different result, but there are some areas in which our judgment in selecting among available alternatives would produce a materially different result. See the Notes to Consolidated Financial Statements that contain additional information regarding our accounting policies and other disclosures.

We believe the following to be our critical accounting policies. That is, they are both important to the portrayal of our financial condition and results, and they require significant estimates, judgments and assumptions about matters that are inherently uncertain.

### **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 specific agreement.

Our revenue is recorded based on the facts currently known to us. If we do not meet the criteria above, we do not recognize revenue. For example, 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. Terms of agreements with customers that impact our ability to determine the amount we will ultimately collect include stock rotation rights, rights to return unsold product, price protection, payment terms conditional on sale or use of the product by our customer and other extended payment terms. In most instances when we defer revenue, the timing and amount of revenue we ultimately recognize is determined upon our receipt of payment and the timing of receipt of cash, which can result in significant fluctuations in revenues from period to period. In 2002, we recognized 20% of our net revenue upon receipt of payment. Until we receive payment from these customers, we present deferred revenue as a reduction of the related accounts receivable.

In addition, from the third quarter of 2001 through and including the fourth quarter of 2002, we tended to ship most of our products and recognize most of our quarterly revenue in the last month of each quarter. Our expenses, however, were and continue to be incurred in a more linear fashion. This quarter-end sales volume has strained our internal control procedures in the past, and has resulted in accounting errors and omissions at quarters end.

### **Allowance for Doubtful Accounts**

We evaluate the collectibility of our accounts receivable based on a combination of factors. When we are aware of circumstances that may impair a customer's ability to meet its financial obligations to us, we record a specific allowance against amounts due to us and reduce the net recognized receivable to the amount we reasonably believe will be collected. In other instances, we recognize allowances for doubtful accounts based on the length of time the receivables are outstanding, industry and geographic concentrations, the current business environment and our historical experience. If the financial condition of our customers deteriorates, or if economic conditions worsen, increased 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. If actual credit losses are significantly greater than the allowance we have established, that would increase our general and administrative expenses and increase our reported net loss. Conversely, if our actual credit losses are significantly less than our allowance, this would eventually decrease our general and administrative expenses and decrease our reported net loss.

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We have a credit policy governing the extension of credit to and establishment of payment terms for our customers. Our policy was not followed in specific instances during the second half of 2001 and during 2002.

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During this period, certain customers were extended credit and granted payment terms outside the provisions of the policy and without the authorization required under our credit policy. These credit extensions and payment terms, and the subsequent nonpayment by customers, contributed to our decision to restate our audited 2001 financial results and our unaudited quarterly financial results for the third and fourth quarter of 2001 and the first three quarters of 2002.

## **Inventory Valuation**

Our inventories are stated at the lower of standard cost, which approximates actual cost determined on a first-in, first-out basis, 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 to historical usage rates, 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.

During the fourth quarter of 2002, we recognized a loss of \$12.8 million related to the write-off of excess Bluetooth wireless inventories, including \$1.7 million of non-cancelable purchase obligations at December 31, 2002. Indicators of decline that we considered when writing down the value of this inventory included a substantially smaller demand than forecasted, requests by customers to return substantial amounts of products that had been shipped, a slower than expected adoption rate of Bluetooth technology, and our assessment that revenue related to these products would continue to decline in the future based on product analysis and forecasts for 2003.

During the fourth quarter of 2002, we also recognized a \$1.2 million write-down related to raw material inventories that were identified as excess in connection with the sale of certain assets related to our Manila operations.

## **Impairment of Long-Lived Assets**

We review long-lived assets, including goodwill and intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Prior to the adoption of SFAS No. 142, *Goodwill and Other Intangible Assets*, recoverability of assets to be held and used was measured by a comparison of the carrying amount of such assets to projected future undiscounted cash flows expected to be generated by such assets or business center. If we determine such 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.

Upon adoption of SFAS No. 142 on January 1, 2002, we began to evaluate goodwill for impairment on an annual basis or whenever indicators of impairment exist. Our evaluation is based upon a comparison of the estimated fair value of our business to our net book value. As of January 1, 2002, we completed the initial goodwill impairment test required by SFAS No. 142 and determined that no impairment existed at that date.

During the third quarter of 2002, our market capitalization declined to, and has remained at, a level significantly less than our net book value. We concluded that the protracted market decline indicated that the fair value of our net assets, including goodwill, was likely less than the carrying value of such assets on October 1, 2002. Because we operate in a single industry segment, all of our goodwill is associated with the entire company (i.e., enterprise goodwill) rather than specific assets or products. As a result of our impairment evaluation performed as of October 1, 2002, we concluded that our goodwill was fully impaired, and we recorded a \$50.7 million impairment charge in the fourth quarter of 2002. As of December 31, 2002, we no longer have any recorded goodwill.



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Effective January 1, 2002, we adopted SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. This statement establishes new rules for determining impairment of certain other long-lived assets, including intangible assets subject to amortization, property and equipment and long-term prepaid assets. Under the new rule we continue to evaluate the recoverability of these assets by a comparison of the carrying amount of an asset to projected future undiscounted cash flows expected to be generated by the assets or business center. The adoption of this standard did not have an effect on our operating results or our financial position.

Due to quality issues with our initial Bluetooth wireless product, increased competition and low demand for Bluetooth wireless products generally, we have not been successful in developing a market for our Bluetooth wireless products. We recently have refocused our Bluetooth wireless product efforts on a few applications where we believe we have unique capabilities or specific expertise. As a result, we re-evaluated the future undiscounted cash flows expected from our existing and in-process Bluetooth wireless technologies as of December 31, 2002. Our evaluation indicated that the carrying value of the intangible assets related to our Bluetooth wireless products was fully impaired. Accordingly, we recorded a \$46.9 million impairment charge in the fourth quarter of 2002 to write-off these assets. As of December 31, 2002, the aggregate value of our remaining intangible assets was \$10.6 million.

## **Deferred Taxes**

For U.S. federal income tax purposes, at December 31, 2002, we had a net operating loss carryforward of approximately \$121.1 million, and an unused research and development credit carryforward of approximately \$3.0 million that begin to expire in 2011. Due to the uncertainty of our ability to realize our deferred tax assets, they have been fully reserved. If we generate U.S. taxable income in future periods, reversal of this valuation allowance could have a significant positive impact on net income in the period that it becomes more likely than not that the net operating loss carryforward will be recognized.

## **Commitments and Contingencies**

We are subject to the possibility of loss contingencies for various legal matters. See Note 9 of our Consolidated Financial Statements. We regularly evaluate current information available to us to determine whether any accruals should be made. If we ultimately determine that an accrual should be made for a legal matter, this accrual could have a material and adverse effect on our operating results and financial position.

We have committed with a supplier to purchase a minimum of \$2.0 million of silicon wafers during 2003 in return for volume pricing. In addition, under the terms of our agreement with TFS, we may become obligated to purchase raw materials inventory during 2003. Our maximum obligation to purchase raw materials inventory under the agreement is approximately \$5.4 million. However, we are unable to estimate at this time the amount of inventory which will be repurchased, if any, under the agreement.

Our future cash commitments are primarily for long-term facility leases. Future minimum lease payments required under operating leases as of December 31, 2002 are as follows (in thousands):

**Year ending December 31,**

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2003	\$ 3,998
2004	2,771
2005	772
2006	396
2007	375
Thereafter	5,160
	<hr/>
	\$ 13,472

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**Table of Contents****RESULTS OF OPERATIONS**

The following table shows certain data from our consolidated statements of operations expressed as a percentage of net revenue for the past three years:

	Year Ended December 31,		
	2002	2001	2000
		(Restated)	
Net revenue	100 %	100 %	100 %
Cost of revenue	88	73	65
Gross margin	12	27	35
Operating expenses:			
Research and development:			
Stock option compensation	16	4	2
Other	56	32	19
Acquired in-process research and development	72	36	21
Selling, general and administrative:			
Stock option compensation	5	4	4
Other	32	28	23
Restructuring costs	37	32	27
Amortization of intangible assets and goodwill	17	14	12
Impairment of long-lived assets	148		
Total operating expenses	291	148	78
Loss from operations	(279)	(121)	(43)
Other income (expense)	2		1
Loss before income taxes	(277)	(121)	(42)
Income tax expense (benefit)	1		3
Net loss	(278)%	(121)%	(45)%

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### **COMPARISON OF YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000**

#### **Net Revenue**

##### *2002 Compared to 2001*

Total net revenue for 2002 was \$65.8 million, compared to \$55.5 million in 2001, representing an increase of 19%. This increase primarily is due to growth in sales of our broadband communications products during the first half of 2002, partially offset by a decline in sales of both our broadband communications and transportation electronics products in the second half of 2002. The 2002 increase was lower than our expectations due to the lack of sales of our Bluetooth wireless connectivity products, a weak economy and competitive pressures. Sales to Daimler Chrysler accounted for approximately 18% and 25% of our revenue in 2002 and 2001, respectively. Sales to our ten largest customers and to their respective manufacturing subcontractors accounted for approximately 76% and 65% of our total revenue for fiscal 2002 and 2001, respectively.

##### *2001 Compared to 2000*

Total net revenue for 2001 was \$55.5 million, compared to \$70.8 million in 2000, representing a decrease of 22%. This decrease primarily is due to lower sales of our broadband products that was partially offset by increased sales of our automotive products. The electronics industry experienced a buildup of inventories in 2000 and, combined with the softening economy, negatively impacted sales of our products in 2001. In the second half of 2001, we began to see signs of recovery of the markets we sell into based on changes in our backlog of orders from customers. Sales to Daimler Chrysler accounted for approximately 25% and 19% in 2001 and 2000, respectively. Sales to our ten largest customers and to their respective manufacturing subcontractors accounted for approximately 65% and 59% of our total revenue for 2001 and 2000, respectively.

#### **Cost of Revenue**

Cost of revenue includes the cost of subcontracted materials, integrated circuit assembly, final test, factory labor and overhead, shipping, warranty costs and inventory charges. We also incur cost for the depreciation of our test and handling equipment, labor, quality assurance and logistics. Our raw materials costs may increase due to price fluctuations and cyclical demand for those materials. We may not be able to pass cost increases on to our customers.

##### *2002 Compared to 2001*

Cost of revenue as a percentage of net revenue increased to 88% in 2002 from 73% in 2001. Our 2002 cost of revenue increased in part as a result a \$12.8 million write-down of our Bluetooth wireless inventories at December 31, 2002, including \$1.7 million non-cancelable wireless inventory purchases at December 31, 2002. This increase was partially offset by cost savings resulting from the consolidation of our two factories in the Philippines during the fourth quarter of 2001. Despite this consolidation, we continued to experience economic inefficiencies due in part to lower utilization of the remaining factory.

*2001 Compared to 2000*

Cost of revenue as a percentage of net revenue increased to 73% in 2001 from 65% in 2000. Our cost of revenue in 2001 increased compared to 2000 primarily as a result of decreased utilization of our available manufacturing capability in our two factories in the Philippines, pricing pressure on our products, the write-off of inventory in 2001, and a \$1.7 million charge for excess inventory that was recorded in the first quarter of 2001.

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### **Research and Development**

Our research and development expenses consist of personnel-related expenses, lab supplies, training and prototype subcontract materials. We expense all of our research and development costs in the period incurred. Research and development efforts currently are focused primarily on development of our next generation of RF products.

#### *2002 Compared to 2001*

For 2002 research and development expenses, including stock compensation, were 72% of net revenue, compared to 36% of net revenue in 2001. The comparative increase in research and development expenses primarily relate to our acquisitions of Microtune (San Diego), Inc. f/k/a Transilica Inc. and MHDC, in the fourth quarter of 2001. Stock option compensation related to research and development was \$10.5 million and \$2.2 million in 2002 and 2001, respectively. The increase in stock option compensation from 2001 is primarily due to our assumption of unvested options in our acquisition of Microtune (San Diego). In 2003, we anticipate research and development expenses to decrease as a result of a reduced workforce, a decrease in stock option compensation, and fewer on-going research and development projects.

#### *2001 Compared to 2000*

For 2001 research and development expenses including stock compensation were 36% of net revenue, compared to 21% of net revenue in 2000. The increase in research and development expenses was due to recruiting of engineers and increased prototype activity in the silicon design process. Stock option compensation related to research and development was \$2.2 million in 2001 and \$1.4 million in 2000.

### **Acquired In-Process Research and Development**

In connection with certain acquisitions and with the assistance of third-party appraisers, we determine the value of in-process projects under development for which technological feasibility has not been established. The value of the projects is determined by estimating the costs to develop the in-process technology into commercially feasible products, and estimating the net cash flows we believe would result from the products and discounting these net cash flows back to their present value. The resulting amount is recorded as a charge for acquired in-process research and development when we acquire certain new businesses. See Note 3 of our Consolidated Financial Statements.

In 2001, we recorded a charge of \$34.1 million for acquired in-process research and development as a result of our acquisitions of Microtune (San Diego) and MHDC. In 2000, we recorded a charge of \$12.7 million for acquired in-process research and development as a result of our combination with Temic Telefunken, which was later named Microtune GmbH & Co. KG (Microtune KG). Amounts we allocated to acquired in-process research and development were expensed at the date of combination, because the purchased research and development had no alternative uses, and had not reached technological feasibility based on the status of design and development activities that required further refinement and testing.

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The value of our acquired in-process research and development was determined by discounting the estimated projected net cash flows related to the applicable products of each acquisition, including costs to complete the development of the technology and the future revenue to be earned upon release of the products. The rates we utilized to discount the net cash flows to present value were based on the weighted average cost of capital adjusted for the risks associated with the estimated growth, profitability, developmental and market risks of the acquired development projects for each acquisition. Projected net cash flows from such products of each acquisition are based on estimates of revenue and operating profit (loss) related to such products.

As of December 31, 2002, all of the in-process research and development projects acquired as a result of our combination with Microtune KG have been completed. We have not been successful in developing a market for our Bluetooth wireless products. We have recently retargeted our Bluetooth efforts to emphasize non-

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traditional Bluetooth applications where we believe we have either unique capabilities or specific expertise. As a result, we have discontinued the development of the in-process research and development projects that were acquired in the acquisition of Microtune (San Diego). In addition, we discontinued our in-process research and development projects acquired in connection with the MHDC acquisition.

### **Selling, General and Administrative**

Selling, general and administrative expenses include our personnel-related expenses for administrative, finance, human resources, marketing and sales, information technology and legal departments, and include expenditures related to legal, public relations and financial advisors. These expenses also include promotional and marketing costs, sales commissions, shipping costs to customers and allowance for doubtful accounts.

#### *2002 Compared to 2001*

For 2002 selling, general and administrative expenses, including stock compensation, were 37% of net revenue, compared to 32% of net revenue in 2001. The increase relates to significant increases in legal expenses in 2002 due to our lawsuits against Broadcom Corporation. In addition, our cost of obtaining directors' and officers' insurance significantly increased in 2002. See Item 3, *Legal Proceedings*. We also incurred continuing costs of integrating our acquisitions of Microtune (San Diego) and MHDC. Stock option compensation related to selling, general and administrative was \$2.9 million and \$1.9 million in 2002 and 2001, respectively. The increase in stock option compensation from 2001 is primarily due to the assumption of unvested options in our acquisition of Microtune (San Diego). In 2003, we anticipate selling, general and administrative expenses to increase primarily due to an increase in professional fees.

#### *2001 Compared to 2000*

For 2001 selling, general and administrative expenses, including stock compensation, were 32% of net revenue, compared to 27% of net revenue in 2000. This increase is primarily due to the increase in legal expenses related to a lawsuit we filed in January 2001 against Broadcom Corporation and the increased cost of our directors' and officers' insurance. Stock option compensation related to selling, general and administrative was \$1.9 million and \$2.8 million in 2001 and 2000, respectively. The decrease in stock option compensation from 2000 is primarily due to the termination of unvested options for terminated employees.

### **Amortization of Intangible Assets and Goodwill**

Amortization of intangible assets and goodwill for 2002 was \$11.2 million compared to \$8.0 million in 2001 and \$8.4 million in 2000. Amortization of intangible assets and goodwill results from our business combinations. Effective January 1, 2002, acquired goodwill and intangible assets with indefinite lives are no longer amortized, but are subject to annual impairment tests in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. Application of the non-amortization provisions of SFAS No. 142 decreased amortization of intangible assets and goodwill by \$4.3 million for 2002. The increase in amortization expense in 2002 resulted from amortization of the intangible assets we acquired in our combination with Microtune (San Diego) in November of 2001. See Notes 1, 3 and 7 of our Consolidated Financial Statements.

**Restructuring**

Restructuring costs for 2002 were \$11.4 million compared to \$3.0 million in 2001 and none in 2000. In 2002, we initiated a restructuring of our operations. The measures, which included reducing our workforce, consolidating our facilities and changing the strategic focus of a number of our sites, were largely intended to strengthen our ability to focus on core strategic competencies and reduce our worldwide operating costs. In 2001, we recorded a \$3.0 million charge primarily related to the consolidation of our two manufacturing operations in the Philippines. See Note 13 of our Consolidated Financial Statements.

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### **Impairment of Intangible Assets and Goodwill**

We review long-lived assets, including goodwill and intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. Prior to the adoption of SFAS No. 142, recoverability of assets to be held and used was measured by a comparison of the carrying amount of an asset to projected future undiscounted cash flows expected to be generated by such assets or business center. If such assets were considered to be impaired, the impairment to be recognized was measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets.

During the third quarter of 2002, our market capitalization declined to, and has continued at, a level significantly less than our net book value. We concluded that such decline was indicative that it was more likely than not that the fair value of our net assets, including goodwill, were less than their carrying values as of October 1, 2002. Because we operate in a single industry segment, all of our goodwill is associated with the entire company (i.e., enterprise goodwill) rather than specific assets or products. As a result of our impairment evaluation performed as of October 1, 2002, we concluded that our goodwill was fully impaired and recorded a \$50.7 million impairment charge in the fourth quarter of 2002. As of December 31, 2002 we no longer have any remaining recorded goodwill. See Note 1 of our Consolidated Financial Statements.

We have not been successful in developing a market for our Bluetooth wireless connectivity products. We re-evaluated the future undiscounted cash flows expected to be generated from our existing and in-process Bluetooth wireless technologies as of December 31, 2002. Our evaluation indicated that the carrying value of the intangible assets related to our Bluetooth wireless products was fully impaired. Accordingly, we recorded a \$46.9 million impairment charge in the fourth quarter of 2002 to write-off these assets.

### **Other Income and Expense**

Other income consists of interest income from investment of cash and cash equivalents, foreign currency gains and losses and other non-operating income and expenses.

Interest income for 2002 was \$2.8 million compared to \$3.1 million in 2001. The decrease in interest income is mainly due to the decline in interest rates during 2002 compared to those in 2001.

Interest income for 2001 was \$3.1 million compared to \$2.7 million in 2000. The increase is mainly due to the investment of proceeds received in the initial public offering of our common stock on August 4, 2000 and the follow-on public offering of our common stock on December 18, 2001.

Through June 30, 2000, we used the U.S. Dollar as our functional currency, except that the German Mark was used as our functional currency for Microtune KG and its subsidiaries (collectively, our Subsidiaries). Foreign currency exchange gains and losses resulting from the translation of financial statements denominated in German Marks of Microtune KG into U.S. Dollars through June 30, 2000, were included as a component of stockholders' equity. Foreign currency exchange gains and losses resulting from the remeasurement of accounts not denominated in German Marks of Microtune KG outside of Germany into German Marks were recognized in our results of operations as a component of foreign currency gains and losses.

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Effective July 1, 2000, we changed the functional currency of our Subsidiaries to the U.S. Dollar from the German Mark to reflect the manner in which our Subsidiaries are now managed and operated. Subsequent to June 30, 2000, the accounts of our Subsidiaries were re-measured into the U.S. Dollar.

Effective January 1, 2001, we began utilizing the Euro exclusively in place of the German Mark, in conjunction with the adoption of the Euro as the common national currency in Germany. As the exchange rate between the German Mark and the Euro was established at a fixed rate, there was no financial impact from this change.

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The impact from the re-measurement of accounts not denominated in U.S. Dollars is recognized currently in our results of operations as a component of foreign currency gains and losses. Foreign currency losses, net were \$1.4 million, \$2.1 million and \$2.5 million in 2002, 2001 and 2000, respectively. See Note 1 of our Consolidated Financial Statements.

Our other expenses for 2001 include a charge of approximately \$1.0 million related to an uncollectible loan to a private RF research and development focused company, made in May 2001.

## **Income Taxes**

Our income taxes are computed using the asset and liability method of accounting. Under the asset and liability method, a deferred tax asset or liability is recognized for estimated future tax effects attributable to temporary differences and carryforwards. The measurement of deferred income tax assets is adjusted by a valuation allowance, if necessary, to recognize future tax benefit only to the extent, based on available evidence, it is more likely than not such benefit will be realized.

Prior to our combination with Microtune KG, we had not recognized any provision for income taxes. For U.S. federal income tax purposes, at December 31, 2002, we had a net operating loss carryforward of approximately \$121.1 million and an unused research and development credit carryforward of approximately \$3.0 million. Neither of these carryforwards begins to expire until 2011. Due to the uncertainty of our ability to realize our deferred tax assets, they have been fully reserved.

The provision for income taxes for 2002, 2001 and 2000 consists of foreign income taxes and U.S. state franchise taxes. Effective January 1, 2001, the German government reduced tax rates on retained earnings, previously 40%, and earnings distributed as a dividend, previously 30%, to a flat rate of 25%. We recorded the impact of this change on deferred income taxes in 2000 when the law was enacted.

**Table of Contents****Quarterly Financial Information**

The following table presents our quarterly financial information for each of the quarters in the years ended December 31, 2002, and 2001.

	2002				2001								
	Dec. 31	September 30	June 30	March 31	December 31	September 30	June 30	Mar. 31					
	(Reported)	(Restated)	(Reported)	(Restated)	(Reported)	(Restated)	(Reported)	(Restated)					
<b>Consolidated Statements of operations data:</b>													
<b>(In thousands, except per share data)</b>													
Net revenue	\$ 11,965	\$ 24,003	\$ 13,543	\$ 23,179	\$ 22,034	\$ 18,243	\$ 18,264	\$ 15,976	\$ 11,266	\$ 15,015	\$ 12,148	\$ 14,455	\$ 17,659
Cost of revenue	24,297	15,098	8,311	14,801	14,091	11,450	11,189	10,413	8,082	9,981	8,276	10,101	14,088
Gross margin	(12,332)	8,905	5,232	8,378	7,943	6,793	7,075	5,563	3,184	5,034	3,872	4,354	3,571
Operating expenses:													
Research and development:													
Stock option compensation	2,793	2,575	2,575	2,577	2,577	2,577	2,577	1,185	1,185	335	335	339	340
Other	6,864	9,729	9,729	10,862	11,162	8,777	9,077	6,235	5,635	4,383	4,383	3,579	3,954
	9,657	12,304	12,304	13,439	13,739	11,354	11,654	7,420	6,820	4,718	4,718	3,918	4,294
Acquired in-process research and development								34,106	34,106				
Selling, general and administrative:													
Stock option compensation	708	706	706	702	702	758	758	478	478	363	363	420	614
Other	5,102	5,906	5,906	4,970	4,970	5,344	5,260	4,296	4,385	3,180	3,180	4,249	3,869
	5,810	6,612	6,612	5,672	5,672	6,102	6,018	4,774	4,863	3,543	3,543	4,669	4,483
Restructuring costs	6,872	4,457	4,457			54	54	3,013	3,013				
Amortization of intangible assets and goodwill	3,100	2,691	2,691	2,703	2,703	2,684	2,684	2,602	2,601	1,804	1,804	1,804	1,802
Impairment of intangible assets and goodwill	97,616												
Total operating expenses	123,055	26,064	26,064	21,814	22,114	20,194	20,410	51,915	51,403	10,065	10,065	10,391	10,579

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Loss from operations	(135,387)	(17,159)	(20,832)	(13,436)	(14,171)	(13,401)	(13,335)	(46,352)	(48,219)	(5,031)	(6,193)	(6,037)	(7,008)
Other income (expense)	852	(319)	(319)	488	488	355	355	(354)	(354)				