

MICROTUNE INC
Form 10-Q
April 30, 2008
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2008

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**
FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission file number 000-31029-40

MICROTUNE, INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: MICROTUNE INC - Form 10-Q

Delaware
(State or other jurisdiction of
incorporation or organization)

75-2883117
(I.R.S. Employer
Identification No.)

2201 10th Street

Plano, Texas 75074

(Address of principal executive office and zip code)

(972) 673-1600

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

As of April 22, 2008, there were approximately 54,291,262 shares of the registrant's Common Stock, \$0.001 par value per share outstanding.

Table of Contents

MICROTUNE, INC.

FORM 10-Q

March 31, 2008

INDEX

	Page
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements</u>	3
<u>Consolidated Balance Sheets at March 31, 2008 and December 31, 2007 (unaudited)</u>	3
<u>Consolidated Statements of Operations for the Three Months Ended March 31, 2008 and 2007 (unaudited)</u>	4
<u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2008 and 2007 (unaudited)</u>	5
<u>Notes to Consolidated Financial Statements (unaudited)</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	28
<u>Item 4. Controls and Procedures</u>	28
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	29
<u>Item 1A. Risk Factors</u>	29
<u>Item 6. Exhibits</u>	29
<u>Signatures</u>	30

Table of Contents**PART I.****FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****MICROTUNE, INC.****CONSOLIDATED BALANCE SHEETS****(In thousands, except per share data)****(unaudited)**

	March 31, 2008	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 84,507	\$ 87,537
Accounts receivable, net	12,428	9,489
Inventories	11,183	10,979
Other current assets	3,398	2,313
Total current assets	111,516	110,318
Property and equipment, net	5,425	4,203
Other assets and deferred charges	2,516	2,788
Total assets	\$ 119,457	\$ 117,309
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 7,360	\$ 4,460
Accrued compensation	2,132	4,634
Accrued expenses	2,569	2,703
Deferred revenue	198	166
Total current liabilities	12,259	11,963
Non-current liabilities	303	122
Commitments and contingencies		
Stockholders equity:		
Preferred stock, \$0.001 par value; Authorized 25,000 shares; Issued and outstanding shares none		
Common stock, \$0.001 par value; Authorized 150,000 shares; Issued and outstanding shares 54,250 and 53,999, respectively	54	54
Additional paid-in capital	463,421	462,402
Accumulated other comprehensive loss	(988)	(988)
Accumulated deficit	(355,592)	(356,244)
Total stockholders equity	106,895	105,224
Total liabilities and stockholders equity	\$ 119,457	\$ 117,309

Edgar Filing: MICROTUNE INC - Form 10-Q

See accompanying notes.

Table of Contents**MICROTUNE, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share data)****(unaudited)**

	Three Months Ended March 31,	
	2008	2007
Net revenue	\$ 25,463	\$ 19,798
Cost of revenue	13,222	9,945
Gross margin	12,241	9,853
Operating expenses:		
Research and development	6,017	5,850
Selling, general and administrative	5,959	6,616
Total operating expenses	11,976	12,466
Income (loss) from operations	265	(2,613)
Other income (expense):		
Interest income	526	1,041
Foreign currency gains, net	140	39
Other, net	2	6
Income (loss) before income taxes	933	(1,527)
Income tax expense	281	18
Net income (loss)	\$ 652	\$ (1,545)
Net income (loss) per common share:		
Basic	\$ 0.01	\$ (0.03)
Diluted	\$ 0.01	\$ (0.03)
Weighted-average common shares outstanding:		
Basic	54,138	53,441
Diluted	56,759	53,441

See accompanying notes.

Table of Contents**MICROTUNE, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(unaudited)**

	Three Months Ended March 31,	
	2008	2007
Operating activities:		
Net income (loss)	\$ 652	\$ (1,545)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	458	369
Foreign currency gains, net	(140)	(39)
Stock-based compensation	1,054	1,456
Loss on disposal of assets	18	1
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,939)	(2,578)
Inventories	(204)	236
Other assets	(813)	165
Accounts payable	2,060	1,567
Accrued expenses	(267)	183
Accrued compensation	(2,502)	(205)
Deferred revenue	32	80
Other liabilities	(29)	(1)
Net cash used in operating activities	(2,620)	(311)
Investing activities:		
Purchases of property and equipment	(515)	(243)
Proceeds from sale of available-for-sale investments		2,150
Net cash provided by (used in) investing activities	(515)	1,907
Financing activities:		
Proceeds from issuance of common stock	242	667
Surrender of common stock by employees for payroll taxes	(277)	
Net cash provided by (used in) financing activities	(35)	667
Effect of foreign currency exchange rate changes on cash	140	39
Net increase (decrease) in cash and cash equivalents	(3,030)	2,302
Cash and cash equivalents at beginning of period	87,537	38,010
Cash and cash equivalents at end of period	\$ 84,507	\$ 40,312
Non-cash investing activities:		
Investment in enterprise software and equipment	\$ 1,183	\$

See accompanying notes.

Table of Contents

MICROTUNE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

(unaudited)

1. Summary of Significant Accounting Policies

Description of Business

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

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

General

The accompanying unaudited financial statements as of and for the first quarter of 2008 and 2007 have been prepared by us, pursuant to the rules and regulations of the United States Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted pursuant to such rules and regulations. These unaudited consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

In the opinion of management, all adjustments which are of a normal and recurring nature and are necessary for a fair presentation of the financial position, results of operations, and cash flows as of and for the first quarter of 2008 and 2007 have been made. Results of operations for the first quarter of 2008 and 2007 are not necessarily indicative of results of operations to be expected for the entire year or any other period.

Risk and Uncertainties

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

Consolidation

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

Use of Estimates

We make estimates, judgments and assumptions that affect the amounts reported in the financial statements and the disclosures made in the accompanying notes, including inventory valuation allowances, warranty costs, determining the

Table of Contents

MICROTUNE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

(unaudited)

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

Cash and Cash Equivalents

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

Allowance for Doubtful Accounts

We evaluate the collectibility of our accounts receivable based on several factors. In circumstances where we are aware of a specific customer's inability to meet its financial obligations to us, we record a specific allowance for doubtful accounts against amounts due to us and reduce the net recorded receivable to the amount we reasonably believe will be collected. We also consider recognizing allowances for doubtful accounts based on the length of time the receivables are outstanding compared to contractual terms, industry and geographic concentrations, the current business environment and our historical experience. Accounts receivable included in the allowance for doubtful accounts are written-off after final collection efforts are exhausted. If the financial condition of our customers deteriorates or if economic conditions worsen, increases in the allowance for doubtful accounts may be required in the future. We cannot predict future changes in the financial stability of our customers, and there can be no assurance that our allowance for doubtful accounts will be adequate. Actual credit losses for the first quarter of 2008 and 2007 were insignificant. No allowance for doubtful accounts was recorded as of March 31, 2008 and December 31, 2007, respectively.

Inventory Valuation

Our inventories are stated at the lower of standard cost, which approximates actual cost, or estimated realizable value. Amounts are removed from inventory using the first-in, first-out (FIFO) method. Adjustments to reduce our inventories to estimated realizable value, including allowances for excess and obsolete inventories, are determined quarterly by comparing inventory levels of individual materials and parts to current demand forecasts for those items. In addition, we review other individual facts and circumstances to determine necessary adjustments to reduce our inventories to estimated realizable value, including current manufacturing yields, product returns and warranty claims. Actual amounts realized upon the sale of inventories may differ from estimates used to determine inventory valuation allowances due to changes in customer demand, technology changes and other factors. The net impact of changes in the inventory valuation allowances for the first quarter of 2008 and 2007 was a charge (benefit) to cost of revenue of \$(0.1) million and \$0.1 million, respectively.

Property and Equipment

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

Property and equipment acquired under capital leases are recorded at the lower of the fair value or the present value of the future minimum lease payments and are amortized using the straight-line method over the lease term. At March 31, 2008, our obligations under capital leases were \$0.2 million.

Revenue Recognition

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

Table of Contents

MICROTUNE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

(unaudited)

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

For certain of our customers, we do not recognize revenue until receipt of payment because collection is not probable or the amount we will ultimately collect is not determinable at the date of the shipment. Upon shipment of product to these customers, title to the inventory transfers to the customer and the customer is invoiced. We account for these transactions by recording accounts receivable for the revenue value of the shipments, as the shipments represent valid receivables, and reducing inventory for the cost of the inventory shipped. The difference, representing the gross margin on the transactions, is recorded as deferred revenue. For financial statement presentation purposes, this deferred revenue balance is offset against the corresponding accounts receivable balance from the customer. When payment is received for the transaction, revenue is recognized for the value of the cash payment, cost of revenue is recorded for the cost of the inventory and the deferred revenue is relieved for the gross margin on the transaction. At March 31, 2008, the sales value of products shipped for which revenue was deferred was insignificant. At December 31, 2007, there were no products shipped for which revenue was deferred.

When we defer revenue, the timing and amount of revenue we ultimately recognize is determined upon our receipt of payment, which can result in significant fluctuations in net revenue from period to period. In the first quarter of 2008 and 2007, net revenue recognized upon receipt of payment was insignificant.

We also defer revenue when customers have made payments and we have not completed the earnings process. These payments are reflected as liabilities in our financial statements as deferred revenue. In these instances, we recognize revenue once the product is shipped, title has transferred to our customer and the earnings process is complete. Deferred revenue as a result of customer prepayments was \$0.2 million as of March 31, 2008 and December 31, 2007, respectively.

We grant limited stock rotation rights to certain distributors, allowing them to return qualifying product to us in accordance with their specific agreements for up to 5% of their aggregate net purchases for the previous six months. In these circumstances, we require the distributor to submit an offsetting purchase order that is, at a minimum, equivalent to the aggregate dollar amount of the product to be returned. We account for the return as a reduction to net revenue and a reduction to accounts receivable for the price of the items returned. Correspondingly, cost of revenue is reduced by the cost of returned inventory offset by an increase in inventory. Any returned inventory items are included in gross inventories, are reviewed along with our other inventory items and are recorded at the lower of cost or market. Historically, distributor returns under stock rotation rights have been insignificant. As a result, we do not establish a reserve for potential returns when product is shipped to distributors, rather we subsequently monitor distributor inventory levels and record a reserve for potential returns of estimated unsaleable inventory subject to stock rotation rights. We account for the shipment of replacement product as a sales transaction, which offsets the reduction of net revenue discussed above.

Research and Development Costs

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

Shipping and Handling Costs

Edgar Filing: MICROTUNE INC - Form 10-Q

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

Table of Contents**MICROTUNE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2008****(unaudited)****Warranty Costs**

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

Foreign Currency Translation

Our functional currency is the United States Dollar. The impact from the re-measurement of accounts not denominated in United States Dollars is recognized currently in our results of operations as a component of foreign currency gains and losses and results primarily from exchange rate fluctuations between the United States Dollar and the Euro. Net foreign currency gains were \$0.1 million and insignificant during the first quarter of 2008 and 2007, respectively.

Income Taxes

Our income taxes are computed using the asset and liability method of accounting. Under the asset and liability method, a deferred income 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 income tax benefits only to the extent, based on available evidence, it is more likely than not such benefits will be realized. Our deferred income tax assets were fully reserved at March 31, 2008 and December 31, 2007.

Effective January 1, 2007, we adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109*, or FIN 48. FIN 48 provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain income tax positions recognized in the financial statements in accordance with SFAS No. 109. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. Upon the adoption of FIN 48, we recorded no liability for uncertain income tax positions. Uncertain income tax positions were as follows (in thousands):

Balance at December 31, 2007	\$
Tax positions taken prior to 2008	105
Balance at March 31, 2008	\$ 105

At March 31, 2008, the uncertain income tax positions were related to foreign withholding taxes on certain cross-border transactions. We expect no material changes to uncertain income tax positions within the next twelve months.

We recognize interest and penalties related to uncertain income tax positions in income tax expense. No interest and penalties related to uncertain income tax positions were accrued at March 31, 2008 and December 31, 2007.

Due to our net operating loss carryforward position, tax years in the United States remain open to examination until three years after the net operating losses from each year are utilized. Potential examination adjustments are limited to the net operating losses utilized from each year. For our international operations, the tax years 2003 through 2007 remain open to examination by the major taxing jurisdictions in which we operate.

Income (Loss) Per Share

Basic income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during each period. Diluted income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during each period and dilutive common equivalent shares consisting of stock options, restricted stock units and employee stock purchase plan options. All potentially dilutive common equivalent shares were anti-dilutive and were excluded from diluted loss per common share for the first quarter of 2007.

Table of Contents**MICROTUNE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2008****(unaudited)**

Our computation of income (loss) per common share was as follows (in thousands, except per share data):

	Three Months Ended March 31,	
	2008	2007
Net income (loss)	\$ 652	\$ (1,545)
Weighted average common shares outstanding	54,138	53,441
Weighted average dilutive potential common shares:		
Stock options	2,449	
Restricted stock units	172	
Weighted average common and dilutive potential common shares	56,759	53,441
Basic income (loss) per common share	\$ 0.01	\$ (0.03)
Diluted income (loss) per common share	\$ 0.01	\$ (0.03)

The following table sets forth anti-dilutive securities that have been excluded from net income (loss) per share (in thousands):

	Three Months Ended March 31,	
	2008	2007
Stock options	4,260	9,537
Restricted stock units		198
Employee stock purchase plan	57	49
Total anti-dilutive securities excluded	4,317	9,784

Stock-Based Compensation

We account for all share-based payment awards to employees and directors, including stock options, restricted stock units and employee stock purchases related to our employee stock purchase plan, using the fair value recognition provisions of SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123(R)) and the provisions of Staff Accounting Bulletin No. 107 (SAB No. 107), issued by the SEC. We use the Black-Scholes-Merton option-pricing formula to value share-based payments granted to employees and attribute the value of stock-based compensation to expense using the straight-line single option method. Stock-based compensation expense recognized each period includes: (1) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the measurement date fair value estimate in accordance with the original provisions of SFAS No. 123, and (2) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the measurement date fair value estimate in accordance with the provisions of SFAS No. 123(R). Stock-based compensation expense recognized each period is based on the greater of the value of the portion of share-based payment awards under the straight-line method or the value of the portion of share-based payment awards that is ultimately expected to vest during the period. In accordance with SFAS No. 123(R), we estimate forfeitures at the time of grant and revise our estimates, if necessary, in subsequent periods if

Edgar Filing: MICROTUNE INC - Form 10-Q

actual forfeitures differ materially from those estimates. Stock-based compensation expense under SFAS No. 123(R) for the first quarter of 2008 and 2007 was \$1.1 million and \$1.5 million, respectively, relating to employee and director stock options, restricted stock units and our employee stock purchase plan. See Note 7.

Table of Contents

MICROTUNE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

(unaudited)

SFAS No. 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. Due to our historical net operating loss position, we have not recorded these excess tax benefits as of March 31, 2008.

Comprehensive Income

SFAS No. 130, *Reporting Comprehensive Income*, establishes standards for reporting and displaying comprehensive income and its components in the consolidated financial statements. Accumulated other comprehensive loss at March 31, 2008 included foreign currency translation adjustments of \$1.0 million related to changing the functional currency of our German subsidiaries from the German Mark to the United States Dollar in 2000.

Risk Concentrations

Financial instruments that potentially expose Microtune to concentrations of credit risk consist primarily of trade accounts receivable. At March 31, 2008, approximately 59% of our net accounts receivable were due from five of our customers. We periodically evaluate the creditworthiness of our customers' financial condition and generally do not require collateral. We evaluate the collectibility of our accounts receivable based on several factors. In circumstances when we are aware of a specific customer's inability to meet its financial obligations to us, we record a specific reserve for bad debts against amounts due to us and reduce the net recorded receivable to the amount we reasonably believe will be collected. For all other customers, 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, additional allowances may be required in the future. Historically, our bad debts have been insignificant and we are not currently aware of any significant uncollectible accounts.

We depend on third-party foundries, primarily IBM, Jazz Semiconductor and X-FAB, to manufacture all of our integrated circuit products. We do not have long-term supply agreements with our foundries but obtain integrated circuit products on a purchase order basis. The inability of a third-party foundry to continue manufacturing our integrated circuits would have a material adverse effect on our operations. Our integrated circuit products are primarily manufactured in the United States, South Korea and the Philippines.

We use Ionics EMS, Inc. (Ionics) for nearly all assembly and calibration functions for our subsystem module solutions. We expect to continue to use a single provider for nearly all assembly and calibration functions for our subsystem module solutions. The unanticipated or sudden loss of this single provider would have a material adverse effect on our results of operations. We are also dependent upon third-parties, some of whom are competitors, for the supply of components used in subsystem module manufacturing. Our failure to obtain components for module manufacturing would significantly impact our ability to ship subsystem modules to customers in a timely manner.

Commitments and Contingencies

We may be subject to the possibility of loss contingencies for various legal matters. Our discussion of legal matters includes pending litigation and matters in which any party has manifested a present intention to commence litigation related to such matters. There can be no assurance that additional contingencies of a legal nature or having legal aspects will not be asserted in the future. Such matters could relate to prior transactions or events or future transactions and events. See Note 6. We regularly evaluate current information available to us to determine whether any provisions for loss should be made. If we ultimately determine that a provision for loss should be made for a legal matter, the provision for loss could have a material adverse effect on our operating results and financial condition.

Our future cash commitments are primarily for long-term facility leases. See Note 6.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 introduced a framework for measuring fair value and expanded required disclosure about fair value measurements of assets and liabilities. On February 6, 2008 the

Table of Contents**MICROTUNE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2008****(unaudited)**

FASB issued a final FASB Staff Position (FSP) No. FAS 157-b, *Effective Date of FASB Statement No. 157*. This FSP delayed the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. In addition, the FSP removed certain leasing transactions from the scope of SFAS No. 157. The effective date of SFAS No. 157 for nonfinancial assets and liabilities has been delayed by one year to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. SFAS No. 157 for financial assets and liabilities is effective for fiscal years beginning after November 15, 2007. We believe the impact of adopting SFAS No. 157 will be immaterial to our financial condition and results of operations.

In December 2007, the FASB issued Statement No. 141(R), *Business Combinations* (SFAS No. 141(R)) and Statement No. 160, *Accounting and Reporting of Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (SFAS No. 160). These new standards change the financial accounting and reporting of business combination transactions and noncontrolling (or minority) interests in consolidated financial statements. SFAS No. 141(R) is required to be adopted concurrently with Statement 160 and is effective for business combination transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We do not expect these statements to have an impact on our financial condition or results of operations for past transactions.

2. Inventories

Inventories consisted of the following (in thousands):

	March 31, 2008	December 31, 2007
Finished goods	\$ 5,911	\$ 7,350
Work-in-process	5,118	3,544
Raw materials	154	85
Total inventories	\$ 11,183	\$ 10,979

3. Accrued Compensation

Accrued compensation consists of the following (in thousands):

	March 31, 2008	December 31, 2007
Accrued vacation	\$ 1,163	\$ 1,088
Accrued payroll taxes	99	706
Accrued incentive compensation	79	1,607
Other	791	1,233
Total accrued compensation	\$ 2,132	\$ 4,634

Edgar Filing: MICROTUNE INC - Form 10-Q

At December 31, 2007, accrued incentive compensation consisted primarily of cash awards under the fiscal year 2007 incentive compensation program. These cash awards were paid in February 2008. See Note 7.

We voluntarily contacted the United States Department of Treasury Internal Revenue Service (IRS) regarding the findings of the Audit Committee's investigation into our stock option granting practices with the intent of pursuing a negotiated settlement with the IRS. On March 28, 2008, we paid the IRS \$0.2 million upon completion of its examination of our payroll tax returns for the years 2003 through 2006 and other matters related to the Audit Committee's investigation. At December 31, 2007, the accrued payroll taxes included \$0.6 million in estimated taxes and interest relating to this issue. As a result of the completion of the IRS examination, in the first quarter of 2008, we realized a benefit to operating expenses of \$0.4 million for amounts previously accrued in excess of the amounts actually paid to the IRS.

Table of Contents**MICROTUNE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2008****(unaudited)****4. Accrued Expenses**

Accrued expenses consisted of the following (in thousands):

	March 31, 2008	December 31, 2007
Accrued non-cancelable inventory purchase obligations	\$ 464	\$ 769
Other	2,105	1,934
Total accrued expenses	\$ 2,569	\$ 2,703

The accrued non-cancelable inventory purchase obligations related to non-cancelable orders to subcontractors for inventories determined to be excess compared to current inventory levels and current demand forecasts. See Note 6. The accrued expenses are expected to be paid during the next twelve months.

5. Income Taxes

We have established a valuation allowance to fully reserve our net deferred tax assets at March 31, 2008 and December 31, 2007 due to the uncertainty of the timing and amount of future taxable income. For United States federal income tax purposes, at December 31, 2007, we had a net operating loss carryforward of approximately \$188.9 million and an unused research and development credit carryforward of approximately \$4.4 million, that will begin to expire in 2012. A change in ownership, as defined in Section 382 of the Internal Revenue Code, may limit utilization of the United States federal net operating loss and research and development credit carryforwards.

In the first quarter of 2008, our effective tax rate differed from the 34% statutory corporate tax rate primarily due to a \$0.3 million charge relating to withholding taxes on certain cross-border transactions and alternative minimum taxes, partially offset by permanent differences, changes in valuation allowances and lower foreign tax rates. Income tax expense for the first quarter of 2008 consisted of the withholding taxes described above, alternative minimum taxes and foreign income taxes.

In the first quarter of 2007, our effective tax rate differed from the 34% statutory corporate tax rate primarily due to permanent differences, changes in valuation allowances and lower foreign tax rates. Income tax expense for the first quarter of 2007 consisted of foreign income taxes.

Subsequent to the end of the second quarter of 2006, we agreed with the German tax authorities to fully resolve a then ongoing review and examination relating primarily to the transfer of intellectual property from our German subsidiary to our domestic operating company in 2001; certain cross-border, intercompany pricing and accounting issues; and the valuation of certain investments in subsidiaries. In resolving these matters, we agreed to pay a nominal amount of income tax and interest, agreed to a permanent reduction of our loss carryforward for corporate tax purposes of approximately 2.4 million Euros and agreed to a temporary reduction of our loss carryforward for corporate tax purposes of approximately 0.8 million Euros. Because of our current loss carryforward position in Germany, we do not believe the permanent reduction in our loss carryforward will impact our taxes payable until 2010 or later. The temporary reduction in our loss carryforward will be fully recovered by 2015. As our deferred tax assets are fully reserved, the reductions to our loss carryforward for corporate tax purposes in Germany will not impact our current operating results. The tax liabilities were paid in the first quarter of 2007 and differed from the previously recorded provision by an insignificant amount.

6. Commitments and Contingencies

Lease Commitments

We lease our corporate headquarters and principal IC design center in Plano, Texas under an operating lease with a ten year term, which began in April 2005. Rent expense is calculated using the straight-line method over the lease term. We lease

Table of Contents**MICROTUNE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2008****(unaudited)**

a research and development facility in Germany under an operating lease with a twenty-two year term, which began in December 1999. We also lease certain other facilities under operating leases and certain equipment and software under operating and capital leases. Future minimum lease payments required under operating leases as of March 31, 2008 are as follows (in thousands):

Year Ending December 31,	
2008	\$ 930
2009	1,103
2010	994
2011	944
2012	955
Thereafter	6,237
Total future minimum lease payments	\$ 11,163

Rent expense for the first quarter of 2008 and 2007 was \$0.4 million and \$0.3 million, respectively.

Purchase Commitments

As of April 22, 2008, we had approximately \$17.0 million of cancelable and non-cancelable purchase commitments outstanding with our vendors. These commitments were entered into in the normal course of business.

Other Commitments

We are currently subject to line down clauses in contracts with certain automotive electronics customers. Such clauses require us to pay financial penalties if our failure to supply product in a timely manner causes the customer to slow down or stop their production. We are also subject to product liability clauses and/or intellectual property indemnification clauses in some of our customer contracts. Such clauses require us to pay financial penalties if we supply defective product, which results in financial damages to the customer, or to indemnify the customer for third-party actions based on the alleged infringement by our products of a third party's intellectual property. As of March 31, 2008, we were unaware of any such contractual claims by any of our customers.

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 claims of any type (either alone or in the aggregate) may materially and adversely affect our financial condition, results of operations and liquidity. In addition, 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 attention and other factors. We cannot assure you that additional contingencies of a legal nature or contingencies having legal aspects will not be asserted against us in the future, and these matters could relate to prior, current or future transactions or events. Except as described below, we are not currently a party to any material litigation.

Audit Committee Investigation, Restatement, SEC Investigation and Derivative Litigation

Edgar Filing: MICROTUNE INC - Form 10-Q

In June 2006, the Audit Committee of our Board of Directors self-initiated an independent investigation into our stock option granting practices covering the period from the date of our initial public offering on August 4, 2000 through June 2006. As a result of the Audit Committee's investigation, we recorded additional stock-based compensation expense and related tax liabilities for certain stock option grants made during the review period and restated our consolidated financial statements for the years ended December 31, 2005, 2004, and 2003, and the selected consolidated financial data as of and for the years ended December 31, 2005, 2004, 2003, 2002, 2001, 2000 and 1999.

We voluntarily contacted the SEC in July 2006 regarding the Audit Committee's independent investigation into our stock option granting practices, and representatives of the Audit Committee met with the SEC in February 2007 and again in July 2007 to discuss the findings of the Audit Committee's investigation. On July 6, 2007, we learned that the SEC's investigation into our stock option granting practices had become formal in April 2007. We also have voluntarily provided documents to the SEC during all phases of its inquiry. We have fully cooperated and will continue to fully cooperate with the SEC in its investigation of these matters.

Table of Contents

MICROTUNE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

(unaudited)

On January 31, 2007, a purported stockholder derivative lawsuit was filed in the United States District Court for the Eastern District of Texas Sherman Division against certain of our current and former officers and directors and against Microtune, as a nominal defendant, alleging various breaches of fiduciary duties, conspiracy, improper financial reporting, insider trading, violations of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, violations of Section 10(b) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and Rule 10b-5 promulgated thereunder, unjust enrichment, gross mismanagement, abuse of control, and waste of corporate assets related to the historical stock option granting practices described in our Annual Report on Form 10-K/A for the year ended December 31, 2005 filed on January 22, 2007.

On March 31, 2008, the Court granted the defendants' motions to dismiss the derivative lawsuit. The Court dismissed the litigation, citing, among other things, the failure of the plaintiff to adequately plead any violations of the United States securities laws and the failure to make a demand on our Board of Directors before filing the lawsuit. Certain of the claims were dismissed with prejudice and other claims were dismissed without prejudice. The Court has granted the plaintiff sixty (60) days to file an amended complaint with regard to the claims dismissed without prejudice, if the plaintiff can do so in good faith and in compliance with Rule 11 of the Federal Rules of Civil Procedure. If the plaintiff files an amended complaint, Microtune and the other defendants plan to continue to defend themselves vigorously.

We have incurred substantial expenses for legal, accounting, tax and other professional services in connection with the Audit Committee's investigation, the preparation of our restated financial statements, the defense of the derivative lawsuit and related regulatory matters. In addition, we have been obligated to indemnify and advance legal expenses to certain current and former officers and directors pursuant to our indemnification agreements with such current and former officers and directors for legal proceedings related to these matters. We have incurred expenses of approximately \$6.5 million through March 31, 2008 related to these matters, net of amounts reimbursed and expected to be reimbursed by our directors' and officers' liability insurance. We may continue to incur substantial expenses in connection with these matters, although our directors' and officers' liability insurance is expected to cover a significant portion of our future expenses.

Initial Public Offering Litigation and Section 16 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 naming as defendants several investment banking firms that served as underwriters of our initial public offering, and in one instance, naming Microtune and several of our former officers. The complaints were 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* (IPO cases). The consolidated complaint alleges liability under §§ 11 and 15 of the Securities Act of 1933, as amended (1933 Act Claims) and §§ 10(b) and 20(a) of the Exchange Act (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. 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 were consolidated for pretrial purposes before the Honorable Shira A. Scheindlin. The Court denied the motions to dismiss the claims.

We previously accepted a settlement proposal presented to all issuer defendants. Under the settlement, plaintiffs were to dismiss and release all claims against the Microtune defendants. The insurance companies collectively responsible for insuring the issuer defendants in all of the IPO cases were to guarantee plaintiffs a recovery of \$1 billion, an amount that covers all of the IPO cases. Under this guarantee, the insurers were to pay the difference, if any, between \$1 billion and the amount collected by the plaintiffs from the underwriter defendants in all of the IPO cases. The Microtune defendants were not to be required to pay any money in the settlement. However, any payment made by the insurers would have been charged to the respective insurance policies covering each issuer's case on a *pro rata* basis (that is, the total insurance company payments would be divided by the number of cases that settle). If the *pro rata* charge exceeded the amount of insurance coverage for a given issuer, then that issuer would be responsible for additional payments. The proposal also provided that

Table of Contents

MICROTUNE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

(unaudited)

the insurers would pay for Microtune's legal fees going forward. On December 5, 2006, however, the U.S. Second Circuit Court of Appeals reversed the district court's ruling certifying the consolidated cases as a class action litigation. The issuer defendants' settlement was contingent upon final approval by the district court.

On December 14, 2006, the district court ordered a stay of all proceedings in all of the lawsuits pending the outcome of plaintiffs' petition to the Second Circuit for rehearing en banc and resolution of the class certification issue. On April 6, 2007, the Second Circuit denied plaintiffs' petition for rehearing, but clarified that the plaintiffs may seek to certify a more limited class in the district court. Accordingly, the parties withdrew the prior settlement, and Plaintiffs submitted amended complaints in designated focus or test cases with a revised class definition, in an attempt to comply with the Second Circuit's ruling. There can be no assurance that the settlement will be successfully renegotiated, and, if renegotiated, will be subsequently approved by the courts. If the renegotiation and approval of the settlement fails, we intend to defend the lawsuit vigorously. Because of the inherent uncertainty of litigation, however, we cannot predict its outcome. If, as a result of this dispute, we are required to pay significant monetary damages, our business could be substantially harmed.

On March 26, 2008, the district court issued an order granting in part and denying in part motions to dismiss the amended complaints in the focus cases. In particular, the district court denied the motions to dismiss as to the Section 10(b) claims. It also denied the motions to dismiss as to the Section 11 claims, except for those claims raised by (1) those plaintiffs who had no conceivable damages because they sold their securities above the offering price; and (2) those plaintiffs whose claims were time barred because they purchased their securities outside the previously certified class period.

On July 30, 2007, we received a letter demanding on behalf of a purported Microtune stockholder that we prosecute a claim against certain of Microtune's IPO underwriters in addition to certain officers and directors for alleged violations of Section 16(b) of the Exchange Act, which prohibits short-swing trading. The purported stockholder failed to give us sufficient information to adequately consider the demand and failed to verify her status as a Microtune stockholder. We believe that this demand is related to the IPO securities litigation described above.

On October 9, 2007, this same purported Microtune stockholder filed *Vanessa Simmonds v. The Goldman Sachs Group, Inc., JP Morgan Chase & Co. and Microtune, Inc.* Microtune was named as a nominal defendant in this action, which is styled as a Complaint for Recovery of Short-Swing Profits under Section 16(b) of the Securities Exchange Act of 1934. No damages are alleged against or sought from Microtune. The suit was filed in the United States District Court for the Western District of Washington at Seattle. During this same timeframe, Ms. Simmonds filed similar lawsuits against over 50 other companies alleging substantially identical claims under Section 16(b).

7. Stockholders' Equity

Common Stock

On March 4, 2002, our Board declared a dividend of one right for each share of our common stock issued and outstanding at the close of business on March 16, 2002. One right also attaches to each share of our common stock issued subsequent to March 16, 2002. The rights become exercisable to purchase one one-thousandth of a share of new Series A Preferred Stock (Series A), at \$115.00 per right, when a person or entity acquires 15 percent or more of our common stock or announces a tender offer which could result in such a person or entity owning 15 percent or more of our common stock. Each one one-thousandth of a share of the Series A has terms designed to make it substantially the economic equivalent of one share of our common stock. Prior to a person or entity acquiring 15 percent, the rights can be redeemed for \$0.001 each by action of our Board. Under certain circumstances, if a person or entity acquires 15 percent or more of our common stock, the rights permit our stockholders other than the acquirer to purchase our common stock having a market value of twice the exercise price of the rights, in lieu of the Series A. Alternatively, when the rights become exercisable, the Board may authorize the issuance of one share of our common stock in exchange for each right that is then exercisable. In addition, in the event of certain business combinations, the rights permit the purchase of the common stock of an acquirer at a 50 percent discount. Rights held by the acquirer will become null and void in both cases. The rights expire

Edgar Filing: MICROTUNE INC - Form 10-Q

on March 3, 2012. On March 31, 2008, 54,250,262 rights were outstanding.

2007 Incentive Compensation Program

During the first quarter of 2007, our Board of Directors approved an annual incentive compensation program for fiscal year 2007 (2007 Program) covering executive officers and providing for incentive compensation, to the extent any such

Table of Contents

MICROTUNE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

(unaudited)

compensation was earned, to be paid 35% in cash and 65% through the performance vesting of restricted stock units under the 2000 Stock Plan based upon a stock price of \$5.00 per share. An aggregate of 197,600 restricted stock units were awarded under the 2007 Program with a grant date fair value of \$4.43 per share. The 2007 Program also provided for the payment of cash awards to certain employees to the extent any such compensation was earned.

On February 8, 2008, our Board of Directors determined that the executive officers covered by the 2007 Program each achieved the maximum awards set forth in the 2007 Program based upon the 2007 Program's profitability and revenue targets. As such, the maximum amount of cash awards under the 2007 Program were paid and the entire amount of restricted stock units awarded under the 2007 Program vested and the underlying shares were issued pursuant to the terms of the 2007 Program. Of the total shares issued under the 2007 Program, certain executive officers surrendered an aggregate of 51,266 shares to satisfy minimum payroll tax withholding requirements. In addition, our Board of Directors determined that certain employees were entitled to cash awards as set forth in the 2007 Program. The cash awards were paid in February 2008. During 2007, stock-based compensation expense recognized under the 2007 Program was \$0.8 million. Stock-based compensation expense of \$0.1 million was recognized during the first quarter of 2008 under the 2007 Program as participants were required to be employed with us on the payment date to be eligible for awards under the 2007 Program. During 2007, we recognized \$1.6 million relating to the cash awards under the 2007 Program. We recognized \$0.3 million relating to the cash awards during the first quarter of 2008 under the 2007 Program.

2008 Incentive Compensation Program

During the first quarter of 2008, our Board of Directors approved an annual incentive compensation program for fiscal year 2008 (2008 Program) covering executive officers and certain key managers and providing for incentive compensation to be paid, to the extent any such compensation is earned, 40% in cash and 60% through the performance vesting of restricted stock units under the 2000 Stock Plan. An aggregate of 213,000 restricted stock units were awarded under the 2008 Program with a grant date fair value of \$5.42 per share. The 2008 Program also provides for the payment of cash awards to certain key employees to the extent profitability goals are met under the 2008 Program.

The amount of cash to be paid and number of total restricted stock units that ultimately vest and result in the issuance of underlying shares are calculated based on certain scoring factors, as defined in the 2008 Program, including net revenue and adjusted profitability, as defined, for 2008. Any cash compensation earned will be paid during the first quarter of 2009. The vesting of the restricted stock units will be determined and the issuance of the underlying shares will occur during the first quarter of 2009. Any portion of the restricted stock units that do not vest will immediately be forfeited and returned to the 2000 Stock Plan. During the first quarter of 2008, amounts recognized under the 2008 Program in stock-based compensation expense relating to the restricted stock units and amounts recognized relating to the cash awards were insignificant.

Stock Option Amendment Agreements with Certain Executive Officers

On December 28, 2006, we entered into Stock Option Amendment Agreements with James A. Fontaine, Chief Executive Officer and President of the Company, Albert H. Taddiken, Chief Operating Officer of the Company, and Robert S. Kirk, Vice President of the Worldwide Sales. The purpose of the agreements was to adjust certain stock option awards held by such executives so that the exercise price of portions of these awards would equal the market value of our common stock on the actual accounting measurement date of such awards, in order to eliminate potential tax liabilities facing these employees.

The agreements for Messrs. Kirk and Taddiken provided compensation to them in 2008 of \$62,804 and \$40,957, respectively, and in 2009 of \$1,152 and \$0, respectively, for the increase in the exercise price of their stock option awards subject to the agreement, provided they each are employed by us on those dates. The 2008 amounts were paid to Messrs. Kirk and Taddiken in January 2008 in accordance with their respective agreements. Mr. Fontaine declined this cash payment and this was reflected in his agreement.

Tender Offer to Amend Stock Options

Edgar Filing: MICROTUNE INC - Form 10-Q

On December 4, 2007, we completed a tender offer with eligible employees, as defined in the tender offer documents, to amend certain stock options to purchase 1,313,738 shares of our common stock to increase the exercise price of portions of those stock options in order to limit the potential adverse personal tax consequences that may apply to those stock options

Table of Contents

MICROTUNE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

(unaudited)

under Section 409A of the Internal Revenue Code and the final regulations promulgated by the IRS thereunder. The eligible stock option grants, as defined in the tender offer documents, that were the subject of the tender offer were granted under either our 1996 Stock Option Plan or our 2000 Stock Plan. At December 31, 2007, the accrued compensation included \$0.5 million for cash payments due under the tender offer. These cash payments were made in January 2008 in accordance with the provisions of the tender offer. During the first quarter of 2008, the charge to stock-based compensation expense to account for the stock option amendments under the tender offer in accordance with SFAS No. 123(R) was insignificant. At March 31, 2008, the cash payments due under the tender offer included in accrued compensation were insignificant. These cash payments were made during April 2008 in accordance with the provisions of the tender offer. We expect to record charges of up to approximately \$0.3 million during the remainder of 2008 and 2009 for potential future cash payments as a result of this tender offer.

Stock Repurchase Program

On April 29, 2008, our Board of Directors approved a stock repurchase program. Under the program, we are authorized to repurchase up to \$10 million of our outstanding shares of common stock until the end of 2008, through open market and privately negotiated transactions, at times and in such amounts as we deem appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, and other market conditions. The program may be suspended or discontinued at any time without prior notice. The stock repurchase program will be funded using our available cash balances and working capital. See Part II, Item 1A., Risk Factors below.

Stock-based Compensation

The following table summarizes the allocation of stock-based compensation expense under SFAS No. 123(R) (in thousands):

	Three Months Ended March 31,	
	2008	2007
Cost of revenue	\$ 5	\$ 10
Research and development	358	654
Selling, general and administrative	691	792
Total stock-based compensation expense included in operating expenses	\$ 1,049	\$ 1,446
Total stock-based compensation expense	\$ 1,054	\$ 1,456

At March 31, 2008, the balance of unearned stock-based compensation to be expensed in future periods related to unvested share-based awards, as adjusted for expected forfeitures and excluding the restricted stock units awarded under the 2008 Program described above, was approximately \$8.0 million. The weighted-average period over which the unearned stock-based compensation is expected to be recognized is approximately 2.2 years. We anticipate that we will grant additional share-based awards to employees in the future, which will increase the stock-based compensation expense by the additional unearned compensation resulting from these grants. The fair value of these grants is not included in the amount above, as the impact of these grants cannot be predicted at this time because it will depend on the number of share-based payments granted. As we currently anticipate that a portion of the restricted stock units under the 2008 Program will ultimately vest, these awards will continue to impact stock-based compensation expense. In addition, if factors change and we employ different assumptions in the application of SFAS No. 123(R) in future periods, the stock-based compensation expense that we record under SFAS No. 123(R) may differ significantly from what we have recorded in the current period.

8. Geographic Information and Significant Customers

Our corporate headquarters and main design center are located in Plano, Texas. We have other sales offices and design centers in the United States and other worldwide locations. Net income from foreign operations totaled \$2.7 million and \$0.3 million for the first quarter of 2008 and 2007, respectively. Net revenue by geographical area is summarized below (in thousands):

	Three Months	
	Ended	
	March 31,	
	2008	2007
Asia Pacific	\$ 11,589	\$ 8,250
North America	8,247	7,880
Europe	5,533	3,633
Other	94	35
Total	\$ 25,463	\$ 19,798

Table of Contents**MICROTUNE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2008****(unaudited)**

Net revenue derived from shipments to customer locations in countries exceeding 10% of total net revenue was as follows:

	Three Months Ended	
	March 31,	
	2008	2007
China (including Hong Kong)	26%	26%
Mexico	24%	*
Germany	12%	12%
United States	*	39%

* Less than 10% of total net revenue

The locations of property and equipment are summarized below (in thousands):

	March 31,	December 31,
	2008	2007
North America	\$ 3,960	\$ 2,808
Europe	1,027	922
Asia Pacific	438	473
Total	\$ 5,425	\$ 4,203

Net revenue from customers, including their respective manufacturing subcontractors, exceeding 10% of total net revenue was as follows:

	Three Months Ended	
	March 31,	
	2008	2007
Cisco	27%	30%
Unihan ⁽¹⁾⁽²⁾	18%	18%
Panasonic	12%	*
Samsung	10%	*
Ten largest customers	86%	85%

⁽¹⁾ Primarily for the benefit of ARRIS

⁽²⁾ Formerly known as Asustek Computer

* Less than 10% of total net revenue

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Caution Regarding Forward-Looking Statements

All statements included or incorporated by reference in this Quarterly Report on Form 10-Q, other than statements of historical fact, are forward-looking statements. These forward-looking statements are based upon our current expectations, estimates and projections about our business and our industry, and reflect our beliefs and assumptions based upon information available to us as of the date of this report and are therefore subject to change. In some cases, you can identify these statements by words such as if, may, might, will, should, could, would, expects, plans, anticipates, believes, estimates, predicts, potential, continue, and other similar terms. These forward-looking statements but are not limited to, projections of our future financial performance and our anticipated growth, our accounting estimates, assumptions and judgments, the demand for our products, descriptions of our strategies, our product and market development plans, the trends we anticipate in our business and the markets in which we operate, the competitive nature and anticipated growth of those markets, our dependence on a few key customers for a substantial portion of our net revenue, our ability to continue to successfully partner with strategic demodulator partners and our ability to successfully address new markets where competition is intense.

We caution readers that the forward-looking statements in this Quarterly Report on Form 10-Q are predictions based on our current expectations about future events. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. Our actual results, performance or achievements could differ materially and adversely from those expressed or implied by any forward-looking statements as a result of various factors. We caution readers not to rely on these forward-looking statements, which reflect management's analysis only as of the date of this Quarterly Report on Form 10-Q. These forward-looking statements speak only as of the date of this Quarterly Report. We undertake no obligation to revise or update any forward-looking statement for any reason, except as otherwise required by law.

NOTE: For a more complete understanding of our financial condition and results of operations, and the risks that could affect our future results, see Risk Factors in Part II, Item 1A. below which describes some of the important risk factors that may affect our business, results of operations and financial condition. You should carefully consider those risks, in addition to the other information in this report and in our other filings with the United States Securities and Exchange Commission (SEC), before deciding to make an investment in our stock. You should also read Quantitative and Qualitative Disclosures About Market Risk in Part I, Item 3. below.

You should also read the following discussion and analysis in conjunction with our Unaudited Consolidated Financial Statements and related Notes in Part I, Item 1., Financial Statements.

OVERVIEW

Microtune, Inc. was incorporated in 1996. We design and market radio frequency (RF) integrated circuits (ICs) and subsystem module solutions for the cable, digital television (DTV) and automotive electronics markets. Our tuner, amplifier and upconverter products permit the delivery, reception and exchange of broadband video, audio and data using terrestrial (off-air) and/or cable communications systems. Our products enable or target various consumer electronics, broadband communications and automotive electronics applications or devices, including cable television set-top boxes; high-speed voice and data cable modems; car audio, video and antenna amplifier systems; digital/analog televisions, including high-definition televisions; personal computer television (PC/TV) multimedia products; and mobile (handheld) televisions. We sell our products to original equipment manufacturers (OEMs) and original design manufacturers (ODMs) who sell devices and applications to consumers or service providers within the cable, digital television and automotive electronics markets. We operate Microtune as a single business unit or reportable operating segment serving our target markets. We record our operating expenses by functional area and account type, but we do not record or analyze our operating expenses by market, product type or product. We attempt to analyze our net revenue by market, but in some cases we sell our products to resellers or distributors, giving us limited ability to determine market composition of our net revenue from these customers. In addition, certain of our OEM customers purchase product from us for applications in multiple end-markets, also limiting our ability to determine our net revenue contribution from each market. In these cases, we are not always able to accurately associate revenue with a market.

The cable, digital television and automotive electronics markets are intensely competitive and historically have seen rapid changes in demand. Certain applications, such as PC/TV, within our target markets can be characterized as having short product life cycles due to rapid technological changes, which can result in rapidly decreasing average selling prices (which we attempt to address with our product cost reduction efforts and higher levels of integration and functionality to counter price erosion) or rapid turnover in design wins. The volatility of demand within our target markets makes it difficult for us to identify and discuss business trends or to predict future results.

Table of Contents

Today, our products are marketed principally to OEMs and ODMs in the following markets:

Cable

Products targeted to this market send and/or receive cable broadband signals. These products include upconverter modules and chipsets used in headend modulators; tuners used in consumer premise equipment (CPE), including high-speed voice and data cable modems, digital cable set-top boxes, and hybrid analog/digital cable set-top boxes; and RF amplifiers used to send and receive signals between the cable headend and CPE.

Digital Television

Products targeted to this market receive digital terrestrial signals. These products are designed for use in consumer electronics devices such as mobile televisions; integrated digital television (IDTV) sets; digital terrestrial set-top converter boxes; satellite receivers that include one or more terrestrial tuners used to receive local high-definition television broadcasts; VCRs; portable DVD players; digital personal video recorders (DVRs); DVD recorders and PC/TV multimedia products, including both USB and PCI or PCI Express OEM and add-on devices.

Automotive Electronics

This market includes products targeted for mobile automotive and airline environments, including automobile and airline in-flight entertainment systems. Our automotive electronics products range from components for traditional AM/FM radios (including tuners and in-glass antenna amplifiers) to components for emerging entertainment applications, including in-car television, in-flight video, digital radio, such as digital audio broadcast, and HD radio .

We monitor and analyze a number of key performance indicators in order to manage our business and evaluate our financial and operating performance. Those indicators include:

Net Revenue: Our net revenue is generated principally by sales of our integrated circuits and subsystem module products directly to OEMs and ODMs who sell devices or applications to consumers or service providers within the cable, digital television and automotive electronics markets. The devices or applications that our customers produce include cable television set-top boxes; high-speed voice and data cable modems; car audio, video and antenna amplifier systems; digital/analog televisions, including HDTVs; PC/TV multimedia products; and mobile televisions. We also market and sell to third-party manufacturers and to distributors who sell directly to the OEMs and ODMs. The majority of our net revenue is generated through the efforts of our sales organization. However, we generated approximately 10% and 12% of our net revenue from sales made through distributors in the first quarter of 2008 and 2007, respectively. Our net revenue varies based upon economic and market conditions in the semiconductor industry and our target markets; the timing, rescheduling or cancellation of significant customer orders; our ability, as well as the ability of our customers, to manage inventory; seasonality in the demand for consumer products into which our products are incorporated; and large orders placed by our key customers. These factors may cause our quarterly and yearly net revenue to fluctuate significantly, which makes it difficult for us to discuss revenue trends or to predict future results. We expect these fluctuations will continue in the future. We analyze trends in total net revenue and we attempt to analyze total net revenue trends by market, which is limited due to our lack of visibility into customers and/or applications, as described above. We also analyze revenue from key customers, focusing on our ten-percent customers, and aggregate net revenue from our top ten customers.

Cost of Revenue and Gross Margin: Cost of revenue includes the cost of subcontracted materials, IC assembly, final test, factory labor and overhead, shipping of materials, shipping costs to customers, customs expenses, warranty costs, production employee expenses and inventory charges or benefits relating to excess or obsolete inventory. We also report expenses for the depreciation of our test and handling equipment and logistics in cost of revenue. Significant items impacting cost of revenue include our product mix and volumes of product sales; the position of our products in their respective life cycles; the effects of competitive pricing programs; manufacturing costs; fluctuations in direct product costs such as wafer pricing and assembly, packaging and testing costs, and overhead costs; and provisions for excess or obsolete inventory. Stock-based compensation expense recorded in cost of revenue

Edgar Filing: MICROTUNE INC - Form 10-Q

under SFAS No. 123(R) is insignificant, and is expected to continue to be insignificant as we use third-party contract manufacturers to produce the majority of our products enabling us to employ a limited number of production employees. Our cost of revenue may increase due to price fluctuations and cyclical demand and we may not be able to pass this increase on to our customers, which makes it difficult

Table of Contents

for us to determine if cost of revenue and gross margin trends will continue or to predict future results. We analyze absolute gross margin dollars and gross margin percentage. We also analyze the key drivers of gross margin, namely typical selling price trends and the components of cost of revenue. The typical selling price of our tuner ICs generally range from approximately \$1.80 to \$2.50 for volume purchases. The typical selling price of our subsystem module products generally range from approximately \$6.00 to \$25.00. In 2008, we expect the average selling price of our products to slightly decrease. More significant decreases, should they occur, could have a material adverse effect on our gross margins, financial condition and results of operations.

Operating Expenses: Operating expenses are substantially driven by personnel-related expenses, including cash and stock-based compensation expense, lab supplies, training and prototype materials, professional fees and insurance expenses. We record stock-based compensation expense in operating expenses in accordance with SFAS No. 123(R) which has resulted in a material charge each period as the majority of our employees are classified in this category. We analyze trends in the absolute dollar value and percentage of net revenue for research and development and selling, general and administrative expenses. We also analyze the underlying expense inputs of significant operating expenses.

Other Income and Expense: We analyze the individual components of other income and expense. We also analyze interest income and the rate of return earned on our cash and cash equivalents and short-term investments.

Liquidity and Cash Flows: Our cash flows are primarily driven by our cash operating results and sales and purchases investments. The primary source of our liquidity is our cash and cash equivalents. From period to period, we experience fluctuations in various items, including our working capital accounts, capital expenditures and proceeds from the exercise of employee stock options and shares purchased under our employee stock purchase program.

Balance Sheet: We view cash and cash equivalents, accounts receivable, days sales outstanding, inventory, inventory turns, and working capital as important indicators of our financial health.

RESULTS OF OPERATIONS

The following table shows certain data from our consolidated statements of operations expressed as a percentage of net revenue:

	Three Months Ended	
	March 31,	
	2008	2007
Net revenue	100%	100%
Cost of revenue	52	50
Gross margin	48	50
Operating expenses:		
Research and development	24	30
Selling, general and administrative	23	33
Total operating expenses	47	63
Income (loss) from operations	1	(13)
Other income (expense)	3	5
Income (loss) before income taxes	4	(8)
Income tax expense	1	
Net income (loss)	3%	(8)%

Table of Contents**COMPARISON OF THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007****Net Revenue**

The following table presents net revenue from each of our product types in the first quarter of 2008 as compared to the first quarter of 2007 (in thousands):

	Three Months Ended March 31,			
	2008	2007	Change	% Change
Silicon	\$ 19,340	\$ 15,220	\$ 4,120	27%
Modules	6,113	4,497	1,616	36
Other	10	81	(71)	(88)
Total	\$ 25,463	\$ 19,798	\$ 5,665	29%

The increase in net revenue in the first quarter of 2008 as compared to the first quarter of 2007 was primarily the result of increased shipments of silicon tuner products for the cable market, partially offset by slightly lower average selling prices of silicon tuner products for the cable market. An increase in shipments of module products for the automotive electronics market also contributed to the increase in net revenue in the first quarter of 2008. Silicon tuner unit shipments increased approximately 40% in the first quarter of 2008 from the first quarter of 2007, primarily in the cable market. Silicon amplifier unit shipments decreased approximately 16% in the first quarter of 2008 from the first quarter of 2007, primarily in the cable market, due to the integration of its functionality into one of our partner's demodulator products and also certain of our next-generation silicon tuner products. Module unit shipments increased approximately 27% in the first quarter of 2008 from the first quarter of 2007, primarily in the automotive electronics market. We expect net revenues to grow between 15% and 20% in 2008 as compared to 2007, primarily driven by growth from the cable market, and to a lesser extent, the digital television and automotive electronics markets.

Net revenue from customers, including their respective manufacturing subcontractors, exceeding 10% of total net revenue was as follows:

	Three Months Ended	
	March 31,	
	2008	2007
Cisco	27%	30%
Unihan ⁽¹⁾⁽²⁾	18%	18%
Panasonic	12%	*
Samsung	10%	*
Ten largest customers	86%	85%

(1) Primarily for the benefit of ARRIS

(2) Formerly known as Asustek Computer

* Less than 10% of total net revenue

Table of Contents**Cost of Revenue and Gross Margin**

The following table presents cost of revenue and gross margin in the first quarter of 2008 as compared to the first quarter of 2007 (in thousands):

	Three Months Ended March 31,			% Change
	2008	2007	Change	
Cost of revenue	\$ 13,222	\$ 9,945	\$ 3,277	33%
Gross margin	12,241	9,853	2,388	24
Gross margin %	48.1%	49.8%	(1.7) pts.	

Gross margin increased in the first quarter of 2008 as compared to the first quarter of 2007 primarily due to an approximate \$5.7 million increase in net revenue, partially offset by a 1.7 point decrease in gross margin percentage. Gross margin percentage in the first quarter of 2008 as compared to the first quarter of 2007 was negatively impacted by a change in the product mix of our silicon tuner products for the digital television market, slightly lower average selling prices of silicon tuner products for the cable market and lower than expected yields on initial product runs of a new cable silicon tuner. Gross margin percentage in the first quarter of 2008 as compared to the first quarter of 2007 was positively impacted by slightly lower average costs of silicon tuner products for the cable market, and to a lesser extent, an increase in net revenue from the cable market as a percentage of total net revenue, which generally had a higher gross margin percentage as compared to other markets. We expect our gross margin percentage in 2008 to be slightly lower than 2007.

Our cost of revenue for the first quarter of 2008 and 2007 benefited from the sale of inventory which had previously been identified as excess to expected demand and expensed in prior periods. The total value of these inventories was \$0.2 million and \$0.1 million, respectively. The net impact of changes in the inventory valuation allowances for the first quarter of 2008 and 2007 was a charge (benefit) to cost of revenue of \$(0.1) million and \$0.1 million, respectively. Cost of revenue for the first quarter of 2007 included charges of \$0.2 million for non-cancelable inventory purchase obligations to subcontractors for inventories determined to be excess compared to current inventory levels and current demand forecasts.

Stock-Based Compensation

The following table summarizes the allocation of stock-based compensation expense under SFAS No. 123(R) (in thousands):

	Three Months Ended March 31,	
	2008	2007
Cost of revenue	\$ 5	\$ 10
Research and development	358	654
Selling, general and administrative	691	792
Total stock-based compensation expense included in operating expenses	\$ 1,049	\$ 1,446
Total stock-based compensation expense	\$ 1,054	\$ 1,456

Operating Expenses

The following table presents operating expenses for the first quarter of 2008 as compared to the first quarter of 2007 (in thousands):

	Three Months Ended March 31,			% Change
	2008	2007	Change	
Research and development	\$ 6,017	\$ 5,850	\$ 167	3%
Selling, general and administrative	5,959	6,616	(657)	(10)

Edgar Filing: MICROTUNE INC - Form 10-Q

Total	\$ 11,976	\$ 12,466	\$ (490)	(4)%
-------	-----------	-----------	----------	------

Table of Contents*Research and Development*

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

The increase in research and development expenses in the first quarter of 2008 as compared to the first quarter of 2007 was primarily the result of an increase in personnel-related expenses resulting from an average headcount increase of approximately 3% and an increase in compensation expense incurred in conjunction with our regular annual base compensation adjustments, an increase in prototyping expenses for new silicon projects and also the timing of these expenditures, partially offset by a decrease in stock-based compensation expense and a benefit of \$0.3 million for taxes and interest accrued in excess of amounts paid to the IRS upon completion of its examination of our payroll tax returns for 2003 through 2006. See Note 3, Accrued Compensation, to the Notes to Unaudited Consolidated Financial Statements. We expect research and development expenses to grow approximately 9% to 13% in 2008 compared to 2007, as we intend to increase the number of RF and technical personnel and increase spending on new product development.

We remain committed to significant research and development efforts to extend our technology leadership in the markets in which we operate. Currently, we hold 77 issued United States utility patents and have 31 additional United States patent applications pending. Our issued United States patents begin to expire in 2015. Our patents generally cover various aspects of our RF and analog technologies at the broad architectural, circuit and building-block levels.

Selling, General and Administrative

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

The decrease in selling, general and administrative expenses in the first quarter of 2008 as compared to the first quarter of 2007 was primarily due to a decrease in professional fees incurred in connection with our ongoing derivative litigation and the SEC investigation. The results for the first quarter of 2008 included net charges of \$0.1 million related to professional fees incurred in connection with our ongoing derivative litigation and the SEC investigation and a benefit of \$0.1 million for taxes and interest accrued in excess of amounts paid to the IRS upon completion of its examination of our payroll tax returns for 2003 through 2006. See Note 3, Accrued Compensation, to the Notes to Unaudited Consolidated Financial Statements and see Part II, Item 1. Legal Proceedings. The results for the first quarter of 2007 included charges of \$1.2 million related to professional fees incurred in connection with the restatement of our financial statements in January 2007 and the related ongoing derivative litigation. We expect selling, general and administrative expenses to decrease approximately 8% to 12% in 2008 as compared to 2007.

Other Income

Other income consists primarily of interest income from our cash balances, net foreign currency gains and other non-operating income.

The following table presents a comparison of other income for the first quarter of 2008 and 2007 (in thousands):

	Three Months Ended March 31,			
	2008	2007	Change	% Change
Interest income	\$ 526	\$ 1,041	\$ (515)	(49)%
Foreign currency gains, net	140	39	101	259
Other, net	2	6	(4)	(67)
Total	\$ 668	\$ 1,086	\$ (418)	(38)%

Edgar Filing: MICROTUNE INC - Form 10-Q

The decrease in interest income in the first quarter of 2008 as compared to the first quarter of 2007 was primarily the result of significantly lower average rates of return on our cash balances. We expect interest income to decrease in 2008 as compared to 2007 due to lower average interest rates.

Table of Contents

Our functional currency is the United States Dollar. The impact from the re-measurement of accounts not denominated in United States Dollars is recognized currently in our results of operations as a component of net foreign currency gains. Foreign currency gains, net, were primarily a result of exchange rate fluctuations between the United States Dollar and the Euro.

Income Taxes

The following table presents a comparison of our income tax expense for the first quarter of 2008 and 2007 (in thousands):

	Three Months Ended March 31,			
	2008	2007	Change	% Change
Income tax expense	\$ 281	\$ 18	\$ 263	1461%
Effective tax rate	30%	1%	29 pts.	

In the first quarter of 2008, our effective tax rate differed from the 34% statutory corporate tax rate primarily due to a \$0.3 million charge relating to withholding taxes on certain cross-border transactions and alternative minimum taxes, partially offset by permanent differences, changes in valuation allowances and lower foreign tax rates. Income tax expense for the first quarter of 2008 consisted of the withholding taxes described above, alternative minimum taxes and foreign income taxes. In the first quarter of 2007, our effective tax rate differed from the 34% statutory corporate tax rate primarily due to permanent differences, changes in valuation allowances and lower foreign tax rates. Income tax expense for the first quarter of 2007 consisted of foreign income taxes.

Subsequent to the end of the second quarter of 2006, we agreed with the German tax authorities to fully resolve a then ongoing review and examination relating primarily to the transfer of intellectual property from our German subsidiary to our domestic operating company in 2001; certain cross-border, intercompany pricing and accounting issues; and the valuation of certain investments in subsidiaries. In resolving these matters, we agreed to pay a nominal amount of income tax and interest, agreed to a permanent reduction of our loss carryforward for corporate tax purposes of approximately 2.4 million Euros and agreed to a temporary reduction of our loss carryforward for corporate tax purposes of approximately 0.8 million Euros. Because of our current loss carryforward position in Germany, we do not believe the permanent reduction in our loss carryforward will impact our taxes payable until 2010 or later. The temporary reduction in our loss carryforward will be fully recovered by 2015. As our deferred tax assets are fully reserved, the reductions to our loss carryforward for corporate tax purposes in Germany will not impact our current operating results. The tax liabilities were paid in the first quarter of 2007 and differed from the previously recorded provision by an insignificant amount.

Net Income (Loss)

The following table presents a comparison of our net income (loss) for the first quarter of 2008 and 2007 (in thousands):

	Three Months Ended March 31,			
	2008	2007	Change	% Change
Net income (loss)	\$ 652	\$ (1,545)	\$ 2,197	142%
Percent of net revenue	3%	(8)%	11 pts.	

The increase in net income in the first quarter of 2008 as compared to the first quarter of 2007 was primarily the result of an increase in net revenue, which resulted in an increase of \$2.4 million in gross margin, and a decrease in operating expenses, partially offset by a decrease in interest income, as described above.

Since inception we have incurred significant losses resulting in an accumulated deficit of approximately \$355.6 million as of March 31, 2008. Our operating history and our business risks, including those risks set forth under the caption Risk Factors in Part II, Item 1A. and Quantitative and Qualitative Disclosures About Market Risk, in Part I, Item 3. make the prediction of future results of operations difficult. As a result, we cannot assure you that we will sustain revenue growth or profitability.

We have invested heavily in research and development of our RF integrated circuits and subsystem module 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, and the acquisition of test and development equipment and software development tools for the expansion of our product portfolio. As a result, we may incur

Table of Contents

substantial losses from operations in 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.

The time lag between product availability and volume shipment can be significant due to the sales process for our products, including 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. Due to this lengthy product cycle, we may experience significant delays from the time we incur expenses for research and development, selling, general and administrative efforts, and investments in inventory, to the time we generate corresponding revenue. The rate of new orders may vary significantly from month to month and quarter to quarter. If anticipated sales or shipments in any quarter do not occur when expected, expenses and inventory levels could be disproportionately high, and our results of operations for that quarter, and potentially future quarters, would be materially and adversely affected.

Liquidity and Capital Resources

The following table presents key components of our liquidity and capital resources for the first quarter of 2008 and 2007 and at March 31, 2008 and December 31, 2007, respectively (in thousands, except days sales outstanding in accounts receivable and inventory turns):

	Three Months Ended March 31,			
	2008	2007	Change	% Change
Operating cash flows	\$ (2,620)	\$ (311)	\$ (2,309)	(742)%
Investing cash flows	(515)	1,907	(2,422)	(127)
Financing cash flows	(35)	667	(702)	(105)
Capital expenditures	1,698	243	1,455	599
Days sales outstanding in accounts receivable	44	42	2	5
Inventory turns (annualized)	4.7	4.5	0.2	4

	March 31,	December 31,	Change	% Change
	2008	2007		
Cash and cash equivalents	\$ 84,507	\$ 87,537	\$ (3,030)	(3)%
Accounts receivable, net	12,428	9,489	2,939	31
Inventories	11,183	10,979	204	2
Working capital	99,257	98,355	902	1

In the first quarter of 2008, the increase in cash used in operating activities resulted primarily from working capital changes in accounts receivable due to an increase in net revenue and the timing of cash receipts, a decrease in accrued compensation due to cash payments under the annual incentive compensation program for fiscal year 2007 and cash payments under the tender offer completed with certain employees to amend certain stock options and a decrease in accrued expenses due to cash payments to the IRS relating to withholding taxes on certain cross-border transactions, partially offset by improved cash operating results and working capital changes in accounts payable due to the timing of cash disbursements. See Note 7, *Stockholders' Equity*, to the Notes to Unaudited Consolidated Financial Statements.

In the first quarter of 2008, our primary use of cash from investing activities was the purchase of equipment related to testing and evaluation of our products. In the first quarter of 2007, our primary source of cash provided from investing activities was the sale of available-for-sale investments.

In the first quarter of 2008, our primary use of cash from financing activities was the surrender of common stock by employees to satisfy payroll tax withholding requirements on incentive compensation under the 2007 Program, partially offset by cash provided from the exercise of employee stock options. In the first quarter of 2007, our primary source of cash from financing activities was the exercise of employee stock options.

Our cash and cash equivalents consisted of bank deposits and money market funds. In the aggregate, our cash and cash equivalents decreased by \$3.0 million during the first quarter of 2008 to \$84.5 million as a result of changes in working capital, incentive compensation payments and tax payments, as described above. We currently have no long-term debt. See Note 1, *Summary of Significant Accounting Policies*, to the Notes to Unaudited Consolidated Financial Statements.

Table of Contents

We expect our operating expenses to increase in the foreseeable future, particularly research and development expenses, sales and marketing expenses, and these expenses could constitute a material use of our cash resources. We also expect less significant increases in capital expenditures. As a result, our net cash flows will depend heavily on our level of future revenue and our ability to manage expenses.

See Note 6, Commitments and Contingencies, to the Notes to Unaudited Consolidated Financial Statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no significant changes to the information required under this Item from what was disclosed in our Annual Report on Form 10-K for the year ended December 31, 2007 (2007 10-K) filed with the SEC.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. We have evaluated, under the supervision and with the participation of our Chief Executive Officer (CEO) and our Chief Financial Officer (CFO), the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q (the Evaluation Date). Based on this evaluation, our CEO and CFO have concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective to ensure that information required to be disclosed by Microtune in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

Changes in Internal Control over Financial Reporting. There has been no change in our internal control over financial reporting that occurred during the quarter ended March 31, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II.

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth under the heading *Legal Proceedings* in Note 6, Commitments and Contingencies, to the Notes to Unaudited Consolidated Financial Statements, included in Part I, Item 1. of this Report, is incorporated herein by reference.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors previously disclosed in our 2007 10-K, except as described below. The description of these material changes does not represent a comprehensive list of risk factors that could cause our results to differ from those that are currently anticipated and therefore should be read in conjunction with the risk factors and other information disclosed in our 2007 10-K.

We cannot assure our stockholders that our stock repurchase program will enhance long-term stockholder value and stock repurchases could increase the volatility of the price of our common stock and will diminish our cash reserves.

On April 29, 2008, our Board of Directors approved a stock repurchase program. Under the program, we are authorized to repurchase up to \$10 million of our outstanding shares of common stock until the end of 2008, through open market and privately negotiated transactions, at times and in such amounts as we deem appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, and other market conditions. The program may be suspended or discontinued at any time without prior notice.

Any repurchases pursuant to our stock repurchase program could affect our stock price and increase its volatility. The existence of a stock repurchase program could also cause our stock price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our stock.

Additionally, our stock repurchase program will diminish our cash reserves, which could impact our ability to pursue strategic opportunities and acquisitions and could result in lower overall returns on our cash balances.

There can be no assurance that any stock repurchases will enhance stockholder value because the market price of our common stock may decline below the levels at which we repurchased shares of stock. Although our stock repurchase program is intended to enhance long-term stockholder value, short-term stock price fluctuations could reduce the program's effectiveness.

ITEM 6. EXHIBITS

Exhibit

Number

- | | |
|------------------------|--|
| 3.1 ⁽¹⁾ | Restated Certificate of Incorporation filed with the Secretary of State of the State of Delaware on May 25, 2005. |
| 3.2 ⁽¹⁾ | Third Amended and Restated Bylaws, as amended April 13, 2005. |
| 10.1 ⁽²⁾⁽⁴⁾ | Sixth Amended and Restated Semiconductor Custom Manufacturing Attachment No. 1 to the Custom Sales Agreement between International Business Machines Corporation and the Registrant dated January 7, 2008. |
| 10.2 ⁽³⁾ | Description of Microtune 2008 Incentive Compensation Program. |
| 10.3 ⁽³⁾ | Executive Officer Sales Incentive Compensation Plan. |
| 31.1* | Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002. |

Edgar Filing: MICROTUNE INC - Form 10-Q

- 31.2* Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1* Certification of Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2* Certification of Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.

- (1) Incorporated by reference to the registrant's Current Report on Form 8-K filed on May 31, 2005.
- (2) Incorporated by reference to the registrant's Current Report on Form 8-K filed on January 8, 2008.
- (3) Incorporated by reference to the registrant's Current Report on Form 8-K filed on February 12, 2008.
- (4) Portions of this exhibit were omitted pursuant to a request for confidential treatment and filed separately.
- * Furnished herewith.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MICROTUNE, INC.

By: /s/ JEFFREY A. KUPP
Jeffrey A. Kupp
Chief Financial Officer

(Principal Financial Officer and Principal
Accounting Officer)

Date: April 30, 2008