

MICROTUNE INC  
Form 10-Q/A  
April 29, 2004  
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**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, DC 20549**

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**FORM 10-Q/A**

**Amendment No. 1**

(Mark one)

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2003**

**OR**

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

**FOR THE TRANSITION PERIOD FROM TO**

**Commission file number 000-31029-40**

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**MICROTUNE, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of

**75-2883117**  
(I.R.S. Employer

**Incorporation or organization)**

**Identification Number)**

**2201 10th Street**

**Plano, Texas 75074**

(Address of principal executive office and zip code)

**(972) 673-1600**

(Registrant's telephone number, including area code)

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of October 31, 2003, approximately 50,969,512 shares of the Registrant's Common Stock, \$0.001 par value per share were outstanding.

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**Microtune, Inc.**

**FORM 10-Q/A**

**September 30, 2003**

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**Explanatory Note:** Microtune, Inc. is filing this Amendment No. 1 on Form 10-Q/A to its Form 10-Q for the quarter ended September 30, 2003 which was originally filed on November 14, 2003 (the "Original 10-Q") to (i) supplement the discussion under Item 4 Controls and Procedures and (ii) make certain technical corrections to the text of the certifications (Exhibits 31.1 and 31.2) of our chief executive officer and chief financial officer so that they conform to the exact form mandated by the applicable rules and regulations under the Securities Exchange Act of 1934, as required by the Sarbanes-Oxley Act of 2002. For the convenience of the reader, this Amendment No. 1 amends in its entirety the Original 10-Q. This Amendment No. 1 continues to speak as of the date of the Original 10-Q, and we have not updated the disclosure contained herein to reflect any events that occurred at a later date other than that set forth above. All information contained in this Amendment No. 1 is subject to updating and supplementing as provided in our periodic reports filed with the SEC subsequent to the date of the filing of the Original 10-Q.

**Caution Regarding Forward-Looking Statements**

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

We caution investors that forward-looking statements are only predictions, based on our current expectations about future events. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. Our actual results, performance or achievements could differ materially from those expressed or implied by the forward-looking statements. We caution investors not to rely on these forward-looking statements, which reflect management's analysis only as of the date of this report. We undertake no obligation to revise or update any forward-looking statement for any reason.

**Table of Contents****PART I.****Financial Information****Item 1. Financial Statements****Microtune, Inc.****Consolidated Balance Sheets****(In thousands, except per share data)****(unaudited)**

	<b>September 30, 2003</b>	<b>December 31, 2002</b>
	<u>          </u>	<u>          </u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 81,262	\$ 106,278
Accounts receivable, net	2,531	7,625
Inventories	5,482	11,852
Other current assets	5,770	2,008
	<u>          </u>	<u>          </u>
Total current assets	95,045	127,763
Property and equipment, net	9,261	17,805
Intangible assets, net	7,502	10,599
Other assets and deferred charges	916	929
	<u>          </u>	<u>          </u>
Total assets	<u>\$ 112,724</u>	<u>\$ 157,096</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 7,066	\$ 8,681
Accrued compensation	1,631	1,434
Accrued expenses	6,382	15,009
	<u>          </u>	<u>          </u>
Total current liabilities	15,079	25,124
Other non-current liabilities	1,345	1,283
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value		
Authorized 25,000 shares		
Issued and outstanding shares none		
Common stock, \$0.001 par value		
Authorized 150,000 shares		
Issued and outstanding shares 50,953 and 49,917 respectively	51	50
Additional paid-in capital	436,615	437,787
Unearned stock compensation	(2,438)	(8,865)

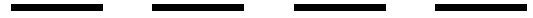
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Loans receivable from stockholders	(29)	(397)
Accumulated other comprehensive loss	(988)	(988)
Accumulated deficit	(336,911)	(296,898)
	<u>          </u>	<u>          </u>
Total stockholders' equity	96,300	130,689
	<u>          </u>	<u>          </u>
Total liabilities and stockholders' equity	\$ 112,724	\$ 157,096
	<u>          </u>	<u>          </u>

See accompanying notes.

**Table of Contents****Microtune, Inc.****Consolidated Statements of Operations****(In thousands, except per share data)****(unaudited)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
		<b>(Restated Note 2)</b>		<b>(Restated Note 2)</b>
Net revenue	\$ 8,975	\$ 13,543	\$ 35,573	\$ 53,841
Cost of revenue	10,549	8,311	30,036	33,591
Gross margin	(1,574)	5,232	5,537	20,250
Operating expenses:				
Research and development:				
Stock option compensation	375	2,575	2,057	7,729
Other	5,014	9,729	17,243	29,968
	5,389	12,304	19,300	37,697
Selling, general and administrative:				
Stock option compensation	121	706	1,667	2,166
Other	9,510	5,906	23,687	16,136
	9,631	6,612	25,354	18,302
Restructuring	(478)	4,457	(378)	4,511
Amortization of intangible assets	1,047	2,691	3,183	8,078
Total operating expenses	15,589	26,064	47,459	68,588
Loss from operations	(17,163)	(20,832)	(41,922)	(48,338)
Other income (expense):				
Interest income	492	712	1,085	2,322
Foreign currency gains (losses), net	(218)	(1,051)	1,106	(1,747)
Other	(127)	20	88	(51)
Loss before provision for income taxes	(17,016)	(21,151)	(39,643)	(47,814)
Income tax expense	125	386	370	784
Net loss	\$ (17,141)	\$ (21,537)	\$ (40,013)	\$ (48,598)
Basic and diluted loss per common share	\$ (0.34)	\$ (0.40)	\$ (0.80)	\$ (0.92)
Weighted-average shares used in computing basic and diluted loss per common share	50,505	53,415	50,149	52,919



See accompanying notes.



**Table of Contents****Microtune, Inc.****Consolidated Statements of Cash Flows****(In thousands)****(unaudited)**

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2003</b>	<b>2002</b>
		<b>(Restated Note 2)</b>
<b>Operating activities:</b>		
Net loss	\$ (40,013)	\$ (48,597)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	5,491	4,648
Amortization of intangible assets	3,183	8,078
Non-cash restructuring costs	1,360	3,262
Foreign currency (gains) losses, net	(1,106)	1,747
Amortization of deferred stock option compensation	3,724	9,895
Loss on sale of Philippine assets	672	
Gain on sale of MHDC	(1,627)	
Other non-cash charges (credits)	491	(132)
Changes in operating assets and liabilities:		
Accounts receivable, net	5,094	(3,520)
Inventories	888	(7,757)
Other assets	1,143	147
Accounts payable	(1,326)	1,606
Accrued expenses	(7,308)	(1,548)
Other liabilities	468	
Accrued compensation	246	64
	<u>(28,620)</u>	<u>(32,107)</u>
Net cash used in operating activities	(28,620)	(32,107)
<b>Investing activities:</b>		
Purchases of property and equipment	(533)	(3,966)
Sale of property and equipment	467	125
Proceeds from sale of Philippine manufacturing assets	2,697	
Sale of MHDC	(934)	
Loans receivable	(46)	(130)
Acquisition of intangible assets	(364)	(344)
	<u>1,287</u>	<u>(4,315)</u>
Net cash provided by (used in) investing activities	1,287	(4,315)
<b>Financing activities:</b>		
Proceeds from issuance of common stock	1,106	1,282
Repurchases of common stock		(1,033)
Loans receivable from stockholders	105	(194)
Other, net		(260)
	<u>2,216</u>	<u>(125)</u>

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Net cash provided by (used in) financing activities	1,211	(205)
Effect of foreign currency exchange rate changes on cash	1,106	(1,747)
	<u>          </u>	<u>          </u>
Net decrease in cash and cash equivalents	(25,016)	(38,374)
Cash and cash equivalents at beginning of period	106,278	173,149
	<u>          </u>	<u>          </u>
Cash and cash equivalents at end of period	\$ 81,262	\$ 134,775
	<u>          </u>	<u>          </u>

See accompanying notes.

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**Microtune, Inc.**

**Notes to Consolidated Financial Statements**

**September 30, 2003**

**(unaudited)**

**1. Summary of Significant Accounting Policies**

**Description of business**

Microtune, Inc. was incorporated on May 28, 1996 and commenced operations on August 21, 1996. We operate in a single industry segment, designing and marketing radio frequency (RF) silicon (semiconductors) and subsystem module solutions for the worldwide broadband communications and transportation electronics markets. We also design and market selected Bluetooth wireless connectivity products.

**General**

The accompanying unaudited financial statements as of and for the three and nine months ended September 30, 2003 and 2002 have been prepared by us, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted pursuant to such rules and regulations. These unaudited consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

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 three and nine months ended September 30, 2003 have been made. Results of operations for the three and nine months ended September 30, 2003, are not necessarily indicative of results of operations to be expected for the entire year or any other period.

**Risk and Uncertainties**

Our future results of operations and financial condition will be impacted by the following factors, among others: dependence on the broadband and automotive markets, competition in our markets, dependence on a few significant customers, lengthy sales cycle, dependence on third party manufacturers and subcontractors, dependence on third party distributors in certain markets, technological changes and dependence on the successful development of products and marketing of new products, international operations and foreign currency fluctuations, intellectual property rights, potential litigation costs and product liability.

### **Consolidation**

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

### **Use of Estimates**

We make estimates, judgments and assumptions that affect the amounts reported in the financial statements and the disclosures made in the accompanying notes, including reserves for inventory, warranty costs, determining the collectibility of accounts receivable, the valuation of deferred tax assets and other amounts. We also use estimates, judgments and assumptions to determine the remaining economic lives and carrying values of purchased intangibles, property and equipment and other long-lived assets. We believe that the estimates, judgments and assumptions upon which we rely are appropriate and correct based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect our reported assets and liabilities as of the date of the financial statements, as well as the reported revenue and expense during the periods presented. If there are material differences between these estimates, judgments or assumptions and actual facts, our financial statements will be affected.

### **Cash and Cash Equivalents**

We consider highly liquid investments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents consist of bank deposits, money market funds and asset-backed commercial paper. Our investments in asset-backed commercial paper are comprised of high-quality securities in accordance with our investment policy.

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### **Inventories**

Our inventories are stated at the lower of standard cost, which approximates actual cost determined on a first-in, first-out basis, or estimated realizable value. Adjustments to reduce our inventories to estimated realizable value, including allowances for excess and obsolete inventories, are determined quarterly by comparing inventory levels of individual materials and parts to current backlog and estimated future sales. Actual amounts realized upon the sale of inventories may differ from estimates used to determine inventory valuation allowances due to changes in customer demand, technology changes and other factors. For the three and nine months ended September 30, 2003 we reduced the carrying value of our Bluetooth wireless inventories by \$1.3 million and \$4.0 million, respectively. See Note 14. In addition, for the three months ended September 30, 2003 we reduced the carrying value of our other inventories by \$1.4 million that was deemed in excess of our current demand forecast as of September 30, 2003 and we wrote-off an additional \$2.4 million of which \$0.9 million was Bluetooth wireless inventory, related to the repurchase of raw material which was excess to our manufacturing plans under the terms of our agreement with TFS.

### **Property and Equipment**

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

### **Intangible Assets**

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

### **Impairment of Long-lived Assets**

We review long-lived assets, including intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We evaluate the recoverability of these assets by a comparison of the carrying amount of an asset to projected undiscounted cash flows expected to be generated by the assets or business center. If we determine our long-lived assets are impaired, we recognize the impairment in the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. For the three and nine months ended September 30, 2003, we recorded \$0.6 million and \$1.1 million, respectively, for acceleration of depreciation for excess equipment resulting from the sale of our manufacturing assets in the Philippines. See Note 11.

### **Revenue Recognition**

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

revenue is recognized upon receipt of cash payments from the licensee of royalty-bearing products.

Our revenue is recorded based on the facts currently known to us. If we do not meet the criteria above, we do not recognize revenue. For example, if we are unable to determine the amount that we will ultimately collect once our product has shipped and title has transferred to our customer, we defer recognition of revenue until we can determine the amount that ultimately will be collected. Terms of agreements with customers that impact our ability to determine the amount we will ultimately collect include stock rotation rights, rights to return unsold product, price protection, payment terms conditional on sale or use of the product by our customer or other extended payment terms. In most instances when we defer revenue, the timing and amount of revenue we ultimately recognize is determined upon our receipt of payment. Until we receive payment from our customer, we present deferred revenue as a reduction of the related accounts receivable.

#### **Research and Development Costs**

Our research and development expenses consist 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 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.

#### **Shipping and Handling Costs**

Shipping and handling costs that we incur related to product shipments to customers are included in selling, general and administrative expenses.

**Table of Contents****Warranty Costs**

We provide a minimum of a one-year warranty on all products and record a related provision for estimated warranty costs at the date of sale. Estimated warranty costs are recorded at the date of sale based on a percentage of revenues derived from our historical warranty costs. In addition, we record specific warranty provisions for any identified individual product issues.

**Foreign Currency Gains and Losses**

The impact from the re-measurement of accounts not denominated in U.S. dollars is recognized currently in our results of operations as a component of foreign currency gains and losses.

**Income Taxes**

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

**Earnings Per Share**

Basic earnings (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during each period. Diluted earnings (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 subject to repurchase rights and employee stock purchase plan options.

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

	<b>September 30,</b>	
	<b>2003</b>	<b>2002</b>
	_____	_____
Stock options	7,046	8,083
Restricted common stock	29	323
Employee stock purchase plan	99	374
	_____	_____
Total anti-dilutive securities excluded	7,174	8,780

## Stock-Based Compensation

At September 30, 2003, we have four stock-based compensation plans covering employees and directors. We have elected to follow Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees*, and related interpretations in accounting for our employee stock options. We account for stock-based compensation for non-employees under the fair value method prescribed by SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123). Through September 30, 2003, there have been no significant grants to non-employees.

Stock option compensation expense results from grants of stock options with deemed exercise prices below the estimated fair value per share of our common stock at the date of grant and as a result of the Transilica acquisition under the provisions of APB No. 25. Deferred stock option compensation is being amortized and charged to operations over the vesting period of the related options. As of September 30, 2003 and December 31, 2002, unearned deferred stock compensation was \$2.4 million and \$8.9 million, respectively. The weighted average remaining vesting period of outstanding compensatory stock options was one year at September 30, 2003.

During October 2002, we established a program whereby each employee with outstanding stock options was given the opportunity to cancel some or all of their option grants in exchange for a promise by us to grant a new stock option in six months and two days from the date of the employee's election to cancel options. The new grants were for the same or lesser number of options cancelled and have an exercise price equal to the market value at the date of the new grant. New grants under this program were 6/54 vested on the date of the grant and vest 1/54 each month thereafter. The program ended on October 31, 2002 and 1,884,413 shares were cancelled, resulting in a charge to stock compensation expense of \$0.9 million. In April and May of 2003, 1,494,037 new options were granted to employees with fair market value exercise prices ranging from \$1.76 to \$2.54 per share pursuant to the program. No additional stock compensation expense resulted from the new grants.

For the quarter ended September 30, 2003, we have granted to our employees 2,916,059 stock options with exercise prices ranging from \$2.20 to \$2.70 per share. The stock options generally vest over the next four years.



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Although SFAS 123 allows us to continue to follow the present APB No. 25 guidelines, we are required to disclose pro forma net income (loss) and net income (loss) per share as if we had adopted SFAS No. 123. The pro forma impact of applying SFAS 123 will not necessarily be representative of the pro forma impact in future periods. Our pro forma information is as follows (in thousands, except per share data):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
		<b>(Restated Note 2)</b>		<b>(Restated Note 2)</b>
Net loss, as reported	\$ (17,141)	\$ (21,537)	\$ (40,013)	\$ (48,598)
Add stock compensation expense recorded under the intrinsic value method	496	3,281	3,724	9,895
Less pro forma stock compensation expense computed under the fair value method	(1,692)	(3,567)	(5,811)	(10,472)
<b>Pro forma net loss</b>	<b>\$ (18,337)</b>	<b>\$ (21,823)</b>	<b>\$ (42,100)</b>	<b>\$ (49,175)</b>
<b>Basic and diluted pro forma loss per common share</b>	<b>\$ (0.36)</b>	<b>\$ (0.41)</b>	<b>\$ (0.84)</b>	<b>\$ (0.93)</b>

**Risk Concentrations**

Financial instruments that potentially subject Microtune to concentrations of credit risk consist primarily of trade accounts receivable. Products are sold to customers internationally, principally in Asia Pacific and Europe. Management continually evaluates the creditworthiness of its customers' financial condition and generally does not require collateral. At September 30, 2003, approximately 59% of our net accounts receivable were due from five of our customers. We evaluate the collectability of our accounts receivable based on a combination of factors. In circumstances where 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. 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 reserves have been generally adequate to cover our actual credit losses.

We depend on third party subcontractors to manufacture all of our integrated circuit products and modules. We do not have long-term supply agreements with our subcontractors, and we obtain integrated circuit products on a purchase order basis. The inability of a third party foundry to continue manufacturing our integrated circuits could have a material adverse effect on our operations. We are also dependent upon third parties, some of whom are competitors, for the supply of components for module manufacturing. Our failure to obtain components for module manufacturing would significantly impact our ability to ship modules to customers.

**Recent Accounting Pronouncements**

In January 2003, the FASB issued FIN 46, *Consolidation of Variable Interest Entities*. FIN 46 requires us to consolidate a variable interest entity if we are subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. A variable interest entity is a corporation, partnership, trust or any other legal structure used for business purposes that either does not have equity investors with voting rights or has equity investors that do not provide sufficient financial resources for the entity to

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support its activities. We do not currently have any interests in variable interest entities and, accordingly, adoption of FIN 46 did not have an impact on our financial position, results of operations or cash flows.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. SFAS No. 150 requires us to classify and measure certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective for periods beginning after June 15, 2003. The adoption of SFAS No. 150 did not have an impact on our consolidated financial position, results of operations or cash flows.

### **2. Restatement of Financial Statements**

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

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The inquiry concluded that in certain instances we recognized revenue earlier than appropriate under accounting principles generally accepted in the United States (GAAP). On April 29, 2003, based on preliminary findings of the inquiry, our Board determined to restate our previously reported financial statements for 2001 and for our quarters ended September 30, 2001, December 31, 2001, March 31, 2002, June 30, 2002 and September 30, 2002. Based on the preliminary findings, our Board also determined to revise our financial results that were reported via a press release on February 20, 2003 and a related current report on Form 8-K filed with the SEC.

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

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

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

Our financial statements as of and for the three months ended September 30, 2002 and related financial information have been restated as follows, (in thousands, except per share data):

	Three Months Ended		Nine Months Ended	
	September 30, 2002		September 30, 2002	
	Reported	Restated	Reported	Restated
<b>Statement of operations data:</b>				
Net revenue	\$ 24,003	\$ 13,543	\$ 65,424	\$ 35,573
Cost of revenue	15,098	8,311	41,350	30,036
Gross margin	8,905	5,232	24,074	5,537
Loss from operations	(17,159)	(20,832)	(44,001)	(41,922)
Loss before income taxes	(17,478)	(21,151)	(43,472)	(39,643)
Net loss	(17,864)	(21,537)	(44,256)	(40,013)
Basic and diluted loss per common share	\$ (0.33)	\$ (0.40)	\$ (0.84)	\$ (0.80)
<b>Balance sheet data:</b>				

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Accounts receivable, net	\$ 24,701	\$ 13,999	\$ 24,701	\$ 13,999
Inventories	14,572	17,907	14,572	17,907
Total current assets	177,358	169,772	177,358	169,772
Total current liabilities	24,695	23,031	24,695	23,031
Accumulated deficit	(155,260)	(162,633)	(155,260)	(162,633)
Total stockholders equity	275,419	268,045	275,419	268,045

**3. Accounts Receivable, net**

Accounts receivable, net consists of the following (in thousands):

	September 30, 2003	December 31, 2002
Gross accounts receivable	\$ 4,075	\$ 10,587
Allowance for doubtful accounts	(259)	(375)
Deferred revenue	(1,285)	(2,587)
Accounts receivable, net	\$ 2,531	\$ 7,625

**Table of Contents****4. Inventories**

Inventories consist of the following (in thousands):

	September 30,	December 31,
	2003	2002
Finished goods	\$ 4,312	\$ 3,736
Work-in-process	1,170	4,279
Raw materials		3,837
<b>Total inventory</b>	<b>\$ 5,482</b>	<b>\$ 11,852</b>

**5. Intangible Assets**

Amortization expense on intangible assets was \$1.0 million and \$2.7 million for the three months ended September 30, 2003 and 2002, respectively, and \$3.2 million and \$8.1 million for the nine months ended September 30, 2003 and September 30, 2002, respectively.

The gross carrying amounts and related accumulated amortization of intangible assets consist of the following (in thousands):

Remaining Weighted Average Useful Life in Years	September 30, 2003			December 31, 2002			
	Gross Carrying Amount	Accum. Amort.	Net Carrying Amount	Gross Carrying Amount	Accum. Amort.	Net Carrying Amount	
Developed technology	\$	\$	\$	\$ 567	\$ 224	\$ 343	
Patents	1.85	11,408	4,931	6,477	11,046	2,430	8,616
Customer base	0.9	3,118	2,374	744	3,118	1,930	1,188
Other	0.35	1,190	909	281	1,190	738	452
<b>Total</b>		<b>\$ 15,716</b>	<b>\$ 8,214</b>	<b>\$ 7,502</b>	<b>\$ 15,921</b>	<b>\$ 5,322</b>	<b>\$ 10,599</b>

The following table sets forth the estimated future amortization of intangible assets as of September 30, 2003 (in thousands):

Year Ending December 31,

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2003	\$ 1,045
2004	4,171
2005	2,202
2006	84

**6. Other Current Assets**

Other current assets consist of the following (in thousands):

	September 30, 2003	December 31, 2002
Prepaid director and officer insurance	\$ 4,033	\$ 802
Other	1,737	1,206
<b>Total other current assets</b>	<b>\$ 5,770</b>	<b>\$ 2,008</b>

**7. Accrued Expenses**

Accrued expenses consist of the following (in thousands):

	September 30, 2003	December 31, 2002
Accrued warranty obligation	\$ 233	\$ 407
Accrued income taxes	893	3,084
Accrued restructuring costs (Note 11)	271	4,936
Accrued non-cancelable inventory purchase obligations		1,671
Accrued legal fees	1,797	314
Accrued legal matters	1,300	847
Other	1,888	3,750
<b>Total accrued expenses</b>	<b>\$ 6,382</b>	<b>\$ 15,009</b>

**Table of Contents****8. Income Taxes**

We have established a valuation allowance to fully reserve our deferred tax assets at December 31, 2002 due to the uncertainty of the timing and amount of future taxable income. For U.S. federal income tax purposes, at December 31, 2002, we had a net operating loss carryforward of approximately \$118.3 million, including operating loss carryforwards of Transilica and an unused research and development credit carryforward of approximately \$3.0 million, that begin to expire in 2011. A change in ownership, as defined in Section 382 of the Internal Revenue Code, may limit utilization of the U.S. federal net operating loss and research and development credit carryforwards.

The provision for the three and nine months ended September 30, 2003 and 2002, consists of foreign income taxes and U.S. state income taxes.

Our income tax returns and those of our subsidiaries are subject to review and examination in the various jurisdictions in which we operate. We believe that all income tax issues that have been or may be raised as a result of such reviews and examinations will be resolved with no material impact on our financial position or future results of operations.

**9. Commitments and Contingencies***Lease Commitments*

In March 2000, we entered into a five-year operating lease for office space in Plano, Texas to be used as our headquarters, as well as for certain administrative, sales and marketing and research and development activities. Microtune KG leases its administrative, sales and marketing and research and development facility in Germany under an operating lease with a twenty-two year term, which began in December 1999. We lease our facilities in San Diego, California, which are primarily for research and development activities, under an operating lease that expires in 2004. We also lease certain other facilities, equipment and computer software under operating leases. Future minimum lease payments required under operating leases as of September 30, 2003 are as follows (in thousands):

<u>Year Ending December 31,</u>	
2003	\$ 889
2004	2,435
2005	1,164
2006	594
2007	426
Thereafter	5,856
	<u>\$ 11,364</u>

As of September 30, 2003, future minimum payments required under the operating lease for the facility in Germany include \$3.1 million guaranteed by Microtune KG relating to obligations issued to finance the land and building.

Rent expense for the three months ended September 30, 2003 and 2002, was \$0.5 million and \$0.8 million, respectively. Rent expense for the nine months ended September 30, 2003 and 2002, was \$1.9 million and \$2.5 million, respectively.

*Purchase Commitments*

Under the terms of our agreement with TFS (Note 11), we may become obligated to purchase additional raw material during 2004. Our maximum obligation to purchase raw materials inventory under this agreement as of September 30, 2003, is approximately \$3.0 million.



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*Legal Proceedings*

From time to time, we may be involved in routine legal proceedings, as well as demands, claims and threatened litigation that arise in the normal course of our business. The ultimate amount of liability, if any, for any pending claims of any type (either alone or combined) may materially and adversely affect our financial position, results of operations or liquidity. Moreover, the ultimate outcome of any pending litigation is uncertain. Any outcome, whether favorable or unfavorabl