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MICROTUNE INC
Form 10-Q
November 12, 2002

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(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, 2002

OR

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

For the transition period from _____ to _____

Commission file number 000-31029-40

MICROTUNE, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
Incorporation or organization)

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

2201 10th Street
Plano, Texas 75074
(Address of principal executive office and zip code)

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

Indicate by check mark whether the Registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 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 NO

As of October 31, 2002, 49,637,238 shares of the Registrant's common
stock were outstanding.

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Microtune, Inc.

FORM 10-Q
September 30, 2002

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This document includes certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations due to changes in global political, economic, business, competitive and market factors.

PART I. Financial Information

Item 1. Financial Statements

Microtune, Inc.

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Consolidated Balance Sheets
(in thousands, except per share data)
(unaudited)

Assets

Current assets:

| | |
|--|--|
| Cash and cash equivalents | |
| Accounts receivable, net of allowance for doubtful accounts of \$1,027 at September 30, 2002 and \$592 at December 31, 2001 | |
| Inventories | |
| Deferred income taxes | |
| Other current assets | |
| Total current assets | |
| Property and equipment, net | |
| Intangible assets, net of accumulated amortization of \$11,049 at September 30, 2002 and \$3,841 at December 31, 2001 | |
| Goodwill, net of accumulated amortization of \$11,210 at September 30, 2002 and December 31, 2001 | |
| Deferred income taxes | |
| Other assets and deferred charges | |
| Total assets | |

Liabilities and Stockholders' Equity

Current liabilities:

| | |
|-------------------------------------|--|
| Accounts payable | |
| Accrued expenses | |
| Accrued compensation | |
| Total current liabilities | |
| Deferred income taxes | |
| Other noncurrent liabilities | |
| Commitments | |

Stockholders' equity:

| | |
|---|--|
| Preferred stock, \$0.001 par value per share; authorized shares - 25,000 | |
| Common stock, \$0.001 par value per share; authorized shares - 150,000; issued shares - 54,137 at September 30, 2002 and 52,737 at December 31, 2001 | |
| Additional paid-in capital | |
| Unearned stock compensation | |
| Loans receivable from stockholders | |
| Accumulated other comprehensive loss | |
| Accumulated deficit | |
| Treasury stock, at cost - 324 shares at September 30, 2002 | |
| Total stockholders' equity | |
| Total liabilities and stockholders' equity | |

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See accompanying notes.

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Microtune, Inc.

Consolidated Statements of Operations
(in thousands, except per share data)
(unaudited)

| | Three Months Ended September 30, | |
|--|-------------------------------------|------------|
| | 2002 | 2001 |
| Net revenues | \$ 24,003 | \$ 15,015 |
| Cost of revenues | 15,098 | 9,981 |
| | 8,905 | 5,034 |
| Gross margin | | |
| Operating expenses: | | |
| Research and development: | | |
| Stock option compensation | 2,575 | 335 |
| Other | 9,729 | 4,383 |
| | 12,304 | 4,718 |
| Selling, general and administration: | | |
| Stock option compensation | 706 | 363 |
| Other | 5,906 | 3,180 |
| | 6,612 | 3,543 |
| Restructuring costs | 4,457 | -- |
| Amortization of intangible assets and goodwill | 2,691 | 1,804 |
| | 26,064 | 10,065 |
| Loss from operations | (17,159) | (5,031) |
| Other income (expense): | | |
| Interest income (expense), net | 712 | 693 |
| Foreign currency translation and transaction gains (losses), net | (1,051) | (79) |
| Other | 20 | (972) |
| | (17,478) | (5,389) |
| Loss before income taxes | | |
| Income tax expense (benefit) | 386 | 14 |
| | \$(17,864) | \$ (5,403) |
| Net loss | \$ (17,864) | \$ (5,403) |
| Basic and diluted loss per common share | \$ (0.33) | \$ (0.14) |
| Weighted-average shares used in computing basic and diluted loss per common share | 53,415 | 39,711 |

See accompanying notes.

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Microtune, Inc.

Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

Operating activities:

Net loss \$
Adjustments to reconcile net loss to net cash used in operating activities:
 Depreciation
 Amortization of intangible assets
 Write-off of intangible assets
 Amortization of goodwill
 Foreign currency translation and transaction gains (losses), net
 Amortization of deferred stock option compensation
 Write-off of uncollectable loan receivable
 Deferred income taxes
Changes in operating assets and liabilities:
 Accounts receivable
 Inventories
 Other assets
 Accounts payable
 Other operating accrued expenses
 Accrued compensation

Net cash used in operating activities

Investing activities:

Purchases of property and equipment
Sale of property and equipment
Loans receivable
Purchase of intangible assets

Net cash used in investing activities

Financing activities:

Proceeds from issuance of common stock upon exercise of stock options and from
 shares purchased under Employee Stock Purchase Plan
Loans receivable from stockholders
Purchase of common stock
Other, net

Net cash provided by (used in) financing activities

Effect of foreign currency exchange rate changes on cash

Net change in cash and cash equivalents
Cash and cash equivalents at beginning of period

Cash and cash equivalents at end of period \$

See accompanying notes.

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Microtune, Inc.

Notes to Consolidated Financial Statements
September 30, 2002
(unaudited)

1. Basis of Presentation

General

The accompanying unaudited financial statements as of and for the three and nine months ended September 30, 2002 and 2001 have been prepared by Microtune, Inc. (the Company), pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States 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 the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.

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, 2002 have been made. Results of operations for the three and nine months ended September 30, 2002, are not necessarily indicative of results of operations to be expected for the entire year or any other period.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Adoption of New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, Business Combinations, effective as of June 20, 2001 and SFAS No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, the pooling-of-interests method of accounting for business combinations has been eliminated. Also, the criteria for recognizing acquired intangible assets apart from goodwill has been changed, and acquired goodwill and intangible assets deemed to have indefinite lives are no longer amortized, but are subject to annual impairment tests in accordance with SFAS No. 141 and SFAS No. 142. Other intangible assets will continue to be amortized over their useful lives.

The Company has applied the new rules on accounting for goodwill and acquired intangible assets beginning January 1, 2002. Intangible assets that do not meet the criteria for recognition apart from goodwill were required to be reclassified. As a result, intangible assets relating to an acquired workforce of \$701,600, net of the related accumulated amortization at December 31, 2001 of \$175,400 were reclassified to goodwill as of December 31, 2001. See Note 5 for further detail of intangible assets.

With the application of the nonamortization provisions of SFAS No. 142, the Company ceased amortization of goodwill as of January 1, 2002. The following table presents the quarterly results of the Company on a comparable basis

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assuming the nonamortization provisions of SFAS No. 142 were effective January 1, 2001 (in thousands, except per share data):

| | Three Months Ended September 30, | |
|---|-------------------------------------|------------|
| | 2002 | 2001 |
| | ---- | ---- |
| Net loss: | | |
| Reported net loss | \$ (17,864) | \$ (5,403) |
| Goodwill and workforce amortization | -- | 1,432 |
| | ----- | ----- |
| Adjusted net loss | \$ (17,864) | \$ (3,971) |
| | ===== | ===== |
| Basic and diluted loss per common share: | | |
| Reported net loss | \$ (0.33) | \$ (0.14) |
| Goodwill and workforce amortization | -- | .04 |
| | ----- | ----- |
| Adjusted net loss | \$ (0.33) | \$ (0.10) |
| | ===== | ===== |

As of January 1, 2002, the Company completed the initial goodwill impairment test required by SFAS No. 142 and determined that no impairment existed at that date. The assessment of goodwill impairment in the future may be impacted if projected future operating cash flows of the Company are not achieved, or if a substantial decline in the market value of our stock occurs for an extended period of time, resulting in decreases in the related estimated fair market values. During the third quarter of 2002, the Company's market capitalization declined to a level which is less than the Company's net book value. To date, the

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Company does not believe that such decline is indicative that it is more likely than not that the fair value of the Company's assets, including goodwill, are less than their carrying values. The Company will perform its annual assessment of goodwill impairment during the fourth quarter. If the Company's market capitalization remains at its current level during the fourth quarter, the Company believes it is likely that an impairment charge will be required.

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, effective for fiscal years beginning after December 15, 2001. This statement establishes new rules for determining impairment of certain other long-lived assets, including intangible assets subject to amortization, property and equipment and long-term prepaid assets. The adoption of this standard did not have an effect on the operating results or the financial position of the Company.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This new rule requires companies to recognize costs associated with exit or disposal activities when the liability is incurred rather than at the date of commitment to exit from or dispose of an activity as required by current generally accepted accounting principles. This statement is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. Accordingly, adoption of this new rule will not have a material affect on the Company's financial statements. However, the

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Company's accounting for exit and disposal activities, including restructurings, initiated after that date will be impacted.

2. Business Acquisitions

On November 28, 2001, the Company acquired all of the outstanding capital stock of Transilica Inc. (Transilica), a privately-held company based in California. Transilica was engaged in research and development of silicon and system-on-chip products for short-range wireless applications. The consideration in the acquisition consisted of 7,206,187 shares of the Company's common stock. In addition, the Company assumed Transilica stock options which represent 831,967 options for the Company's common stock. The merger agreement also provided that approximately 15% of the total shares of the Company's common stock issued to Transilica shareholders at the time of acquisition be placed in escrow for the purpose of securing the indemnification obligations of Transilica under the merger agreement. The escrow shares are to be released periodically, subject to any escrow claims, at the end of each of the three years following the closing. The results of operations of Transilica are included in the results of operations of the Company from the date of acquisition. The components of the aggregate cost of the acquisition were as follows (in thousands, except share data):

| | | |
|---|--|-------------|
| Fair market value of 7,206,187 shares of common stock (including 1,206,307 shares placed in escrow) | | \$ |
| Fair market value of 831,967 Transilica stock options assumed | | |
| Transaction costs | | |
| Total acquisition cost | | \$ = |

The fair market value of the Company's common stock was based on the closing stock price on the date of acquisition. The fair value of the Transilica stock options assumed was based on the Black-Scholes option valuation model.

The cost of the acquisition has been allocated to the assets and liabilities acquired, acquired in-process research and development and deferred stock compensation, with the remainder recorded as excess cost over net assets acquired, based on estimates of fair values as follows (in thousands):

| | | |
|---|--|-------------|
| Working capital | | \$ |
| Noncurrent assets and liabilities, net | | |
| Developed technology | | |
| Patents | | |
| Employment and non-compete agreements | | |
| Goodwill | | |
| Acquired in-process research and development costs charged to expense | | |
| Unearned stock compensation | | |
| Total acquisition cost | | \$ = |

Unearned stock compensation recorded in connection with the acquisition represents the intrinsic value of Transilica's unvested stock options and restricted common stock shares for which future service is required subsequent to the date of the acquisition in order for employees to vest in the stock options and restricted common stock shares. The amount allocated to unearned

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stock compensation has been deducted from the estimated fair value of the unvested stock options and restricted common stock shares for purposes of the allocation of purchase price to assets acquired. The unearned stock compensation will be amortized to expense over the remaining vesting period of the unvested stock options and restricted common stock shares of one to four years. The Company is in the process of evaluating the other assets and liabilities acquired in the Transilica acquisition.

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The final allocation of the purchase price, which is expected to be complete in the fourth quarter of 2002, will be based on the complete evaluation of the acquired assets and liabilities.

In the third quarter 2002, we closed our Singapore design center and eliminated certain positions at our San Diego location which were part of the acquisition. This resulted in the write-off of certain employment agreements related to the employees at these locations. See Notes 5 and 10 for further discussions of the write-off of these employment agreements.

On October 16, 2001, the Company acquired a research and design center, located in the Netherlands, which was subsequently renamed the Microtune Holland Design Center (MHDC). MHDC specializes in the design of digital signal processing VLSI chips and associated software, currently targeted at the digital television equipment market. MHDC's products provide decoding and decompression of video and audio that are embedded within the radio-frequency transmitted signals. The consideration in the acquisition consisted of \$3,000,000 of cash and 210,000 shares of the Company's common stock. The results of operations of MHDC are included in the results of operations of the Company from the date of acquisition. The components of the aggregate cost of the acquisition were as follows (in thousands, except share data):

| | |
|---|--|
| Cash paid to shareholders | |
| Fair market value of 210,000 shares of common stock | |
| Transaction costs | |
| Total acquisition cost | |

The fair market value of the Company's common stock was based on the closing price as of October 1, 2001, when the terms of the acquisition were agreed to by the parties to the transaction.

The cost of the acquisition has been allocated to the assets and liabilities acquired and to acquired in-process research and development, with the remainder recorded as excess cost over net assets acquired, based on estimates of fair values as follows (in thousands):

| | |
|---|--|
| Working capital (deficit) | |
| Noncurrent assets and liabilities, net | |
| Developed technology | |
| Goodwill | |
| Acquired in-process research and development costs charged to expense | |
| Deferred income taxes | |

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Total acquisition cost \$

The acquisitions of Transilica and MHDC have allowed the Company to expand its core RF silicon and systems technologies. These acquisitions provide the Company with complementary wireless silicon solutions that, when integrated into consumer or commercial end products, enable users to remotely access data or voice through wireless personal or local areas networks.

The Company's management is primarily responsible for estimating the fair values of intangible assets and acquired in-process research and development. The estimates of the fair values of intangible assets and acquired in-process research and development were determined based on information furnished by management of the companies acquired.

The value of the acquired developed technology, patents, and other intangibles was determined by discounting the estimated projected net cash flows to be generated from the related assets. Projected net cash flows were based on estimates of future revenues and costs related to such assets. The rate used to discount the net cash flows to present value ranged from 17% to 25%.

Amounts allocated to acquired in-process research and development were expensed at the date of acquisition because the purchased research and development had no alternative future uses, and had not reached technological feasibility based on the status of design and development activities that required further refinement and testing. The estimates used in valuing the research and development were based upon assumptions regarding future events and circumstances management believes to be reasonable, but that are inherently uncertain and unpredictable. The relative stage of completion and projected operating cash flows of the underlying in-process projects acquired were the most significant and uncertain assumptions utilized in the valuation analysis of the acquired in-process research and development. Such uncertainties could give rise to unforeseen budget overruns and revenue shortfalls in the event that the Company is unable to successfully complete and commercialize the projects.

The value of the acquired in-process research and development was determined by discounting the estimated projected net cash flows related to the applicable products of each acquisition for the amount of years as shown in the table below, including

costs to complete the development of the technology and the future revenues to be earned upon release of the products. The rates utilized to discount the net cash flows to present value as shown in the table below were based on the weighted average cost of capital adjusted for the risks associated with the estimated growth, profitability, developmental and market risks of the acquired development projects for each acquisition. Projected net cash flows from such products of each acquisition are based on estimates of revenues and operating profit (loss) related to such products. Management expects that the purchased research and development projects generally will be successfully developed into commercially viable products and expects to essentially meet its original cash flows and return expectations for these projects. However, there can be no assurance that commercial viability or timely release of these products will be achieved.

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| Entity Acquired ----- | Acquisition ----- Date ---- | In Process Projects ----- | Discount Rate ----- | Complete Projects | |
|--------------------------|--------------------------------------|---|------------------------|------------------------------|-------------------------------|
| | | | | At Acquisition ----- | At September ----- 2002 |
| Transillica Inc. | Nov. 2001 | Short-range Wireless applications | 35% | \$3.2 million / Oct. 2002 | \$3.0 million / Dec. 2002 |
| SPaSE, B.V. | Oct. 2001 | Demodulator design | 28% | \$2.7 million / June 2003 | \$2.5 million / June 2003 |

3. 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 common equivalent shares consisting of preferred stock, stock options, warrants, 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):

| | |
|--|-------|
| Stock options | |
| Restricted common stock | |
| Employee stock purchase plan | |
| Total anti-dilutive securities exclude | |

4. Inventories

Inventories consists of the following (in thousands):

| | |
|-----------------------|-------|
| Finished goods | |
| Work-in-process | |
| Raw materials | |

Inventories are stated at the lower of standard cost, which approximates

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actual cost determined on a first-in, first-out basis, or estimated realizable value.

5. Intangible Assets

Excluding goodwill and intangible assets reclassified into goodwill as of December 31, 2001, amortization expense on intangible assets was \$8.1 million and \$1.1 million for the nine months ended September 30, 2002 and 2001, respectively, and \$2.7 million and \$0.4 million for the three months ended September 30, 2002 and 2001, respectively. Employment agreements of \$4.1 million less the associated accumulated amortization of \$0.9 million were written off in conjunction with our restructuring efforts in the three months ended September 30, 2002. See Note 10 for further detail of restructuring costs.

Effective January 1, 2002 acquired goodwill and intangible assets with indefinite lives are no longer amortized, but are subject to annual impairment tests in accordance with SFAS No. 142, Goodwill and Other Intangible Assets. Application of the

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non-amortization provisions of SFAS No. 142 decreased amortization of intangible assets and goodwill by \$4.3 million in the nine months ended September 30, 2002. However, amortization of recorded intangible assets increased by \$7.0 million in the nine months ended September 30, 2002 as the result of the acquisitions of Transilica and MHDC.

The following table sets forth the estimated amortization expense of intangible assets for the fiscal years ending December 31 (in thousands):

| | |
|------------|----------|
| 2002 | \$10,635 |
| 2003 | 9,739 |
| 2004 | 9,656 |
| 2005 | 8,061 |
| 2006 | 7,928 |

Intangible assets consist of the following (in thousands):

| | September 30, 2002 | | December 31, 2001 | |
|-----------------------------|-----------------------------|------------------|-----------------------------|------------------|
| | Gross Carrying Amount | Accum. Amort. | Gross Carrying Amount | Accum. Amort. |
| Developed technology | \$ 36,767 | \$ 4,485 | \$36,767 | |
| Patents | 22,223 | 3,917 | 21,891 | 1 |
| Employment agreements | 890 | 184 | 5,010 | |
| Other | 4,309 | 2,463 | 4,309 | 1 |
| | \$ 64,189 | \$11,049 | \$67,977 | \$3 |
| | ===== | ===== | ===== | ===== |

6. Accrued Expenses

Accrued expenses consists of the following (in thousands):

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| | September 30, ----- 2002 ---- | December 31, ----- 2001 ---- |
|-----------------------------------|--|---------------------------------------|
| Deferred revenue | \$ -- | \$ 1,494 |
| Accrued warranty obligation | 407 | 743 |
| Accrued income taxes | 5,269 | 5,289 |
| Deferred income taxes | 538 | 492 |
| Other | 6,600 | 7,081 |
| | ----- | ----- |
| | \$ 12,814 | \$ 15,099 |
| | ===== | ===== |

7. Income Taxes

Prior to our combination with Microtune KG, the Company had not recognized any provision for income taxes. For U.S. federal income tax purposes, at December 31, 2001, the Company had a net operating loss carryforward of approximately \$72.6 million and an unused research and development credit carryforward of approximately \$1.4 million, which begins to expire in 2011. Due to the uncertainty of our ability to utilize these deferred tax assets, they have been fully reserved.

The provision for the three and nine months ended September 30, 2002 and the provision and benefit for the three and nine months ended September 30, 2001 consists of foreign income taxes and U.S. state taxes. Effective January 1, 2001, the German government reduced tax rates of retained earnings, previously 40%, and earnings distributed as a dividend, previously 30%, to a flat rate of 25%.

8. Commitments and Contingencies

From time to time, we may be involved in litigation relating to claims arising out of our ordinary course of business. We are not currently a party to any material litigation, except as described below.

On January 24, 2001, the Company filed a lawsuit alleging patent infringement in the United States Court for the Eastern District of Texas, Sherman Division, against Broadcom Corporation. The lawsuit alleges that Broadcom Corporation's BCM3415 microchip infringes on the Company's U.S. patent no. 5,737,035. The Company's complaint is seeking monetary damages resulting from the alleged infringement as well as injunctive relief precluding Broadcom Corporation from taking any further action which infringes the Company's 5,737,035 patent. On May 7, 2002 Broadcom Corporation filed a Motion for Leave to Supplement its counterclaim asking the court's permission to add a counterclaim asserting infringement by Microtune of

Broadcom's U.S. patent no. 6,377,315. On June 19, 2002, Broadcom's motion was denied. The trial in this lawsuit is scheduled to commence January 8, 2003. We are unable at this time to determine whether the outcome of the litigation will have a material impact on our results of operations or financial condition in any future period.

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

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injunctive relief precluding Microtune from taking any further action which infringes the U.S. patent no. 6,377,315. While we intend to vigorously defend this suit, we are unable at this time to determine whether the outcome of the litigation will have a material impact on our results of operations or financial condition in any future period.

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. The Company is aware of at least three such complaints: Berger v. Goldman, Sachs & Co., Inc. et al.; Atlas v. Microtune et al.; and Ellis Investments Ltd. v. Goldman Sachs & Co., Inc. et al. The complaints are brought purportedly on behalf of all persons who purchased the Company's common stock from August 4, 2000 through December 6, 2000. The Atlas complaint names as defendants Microtune, Douglas J. Bartek, the Company's Chairman and Chief Executive Officer, Everett Rogers, the Company's former Chief Financial Officer and Vice President of Finance and Administration and current Vice President of Investor Relations, and several investment banking firms that served as underwriters of our initial public offering. Microtune, Mr. Bartek and Mr. Rogers were served with notice on the Atlas complaint on August 22, 2001, however, they have not been served regarding the other referenced complaints. The Berger and Ellis Investment Ltd. complaints assert claims against the underwriters only. The complaints were consolidated and amended on May 29, 2002. Among other things, the complaints allege liability under Sections 11 and 15 of the Securities Act of 1933 and Section 10(b) and 20(a) of the Securities Exchange Act of 1934, 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. We are aware that similar allegations have been made in lawsuits challenging over 180 other initial public offerings conducted in 1998, 1999, and 2000. No specific amount of damages is claimed in the three complaints involving our initial public offering. These cases are subject to the Private Securities Litigation Reform Act of 1995. These cases and all of the other lawsuits filed in the Southern District of New York making similar allegations have been coordinated before the Honorable Shira A. Scheindlin. We believe that the allegations against Microtune, Inc., Mr. Bartek and Mr. Rogers are without merit. We intend to contest them vigorously, including by filing a motion to dismiss these cases. We are unable at this time to determine whether the outcome of the litigation will have a material impact on our results of operations or financial condition in any future period. Furthermore, there can be no assurances regarding the outcome of the litigation or any related claim for indemnification or contribution between or among any of the underwriters and us.

9. Stock Plans and Stockholders' Equity

In 2001 and 2000, the Company recorded approximately \$17.8 million and \$16.5 million, respectively, of deferred stock option compensation as a result of granting stock options with deemed exercise prices below the estimated fair value per share of the Company's common stock at the date of grant prior to the initial public offering of its common stock or as a result of the Transilica acquisition. Deferred stock option compensation is being amortized and charged to operations over the vesting period of the applicable options. As of September 30, 2002 and December 31, 2001, unamortized deferred stock compensation was \$16.5 million and \$28.3 million, respectively. The weighted-average remaining vesting period of outstanding compensatory stock options was 1.7 years at December 31, 2001 based upon the annual stock option compensation amortization over the total deferred stock option compensation. Actual vesting periods range from 2002 to 2006.

On July 19, 2002 the Board of Directors authorized a stock repurchase

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program to acquire outstanding common stock on either the open market or through negotiated transactions. Under the program, up to 10% of the outstanding shares of Microtune common stock can be reacquired. Since the beginning of the program through November 8, 2002, the Company has purchased a total of 4,445,325 shares of its common stock for an aggregate cost of \$7.7 million.

During October 2002, the Company 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 the Company 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 will be for the same or lesser number of options cancelled and will have an exercise price equal to the market closing price the day before the grant. New grants will vest 1/54 each month with 6/54 vesting on the date of the new grant. The program ended October 31, 2002 and 1,875,781 shares were cancelled pursuant to the program.

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10. Restructuring Costs

In the fourth quarter of 2001 the Company recorded a \$3.0 million charge related to restructuring actions, primarily related to the consolidation of the Company's manufacturing operations in the Philippines from two factories into a single factory. Of the \$3.0 million charge, \$0.8 million related to severance for 477 employees that had been paid out by year end, \$1.3 million related to write-offs of equipment to be disposed of, \$0.4 million related to write-offs of VAT receivables which will not be collectable and the remaining \$0.5 million related to the write-down of other assets and accrual of costs related to the restructuring. The equipment which was written-off will no longer be used at the Philippines factory and is expected to be completely disposed of by the end of the first quarter 2003. At September 30, 2002 and December 31, 2001, accrued restructuring costs related to these actions taken in the fourth quarter 2001 totaled \$0.6 million and \$0.8 million, respectively. Such costs are expected to be settled during 2003.

In the third quarter of 2002 the Company recorded a \$4.5 million charge related to restructuring actions taken to reduce operating costs and strengthen our ability to focus on core strategic competencies. Of the \$4.5 million charge, \$3.2 million related to the write-off of intangible assets consisting of employment agreements acquired in the Transilica acquisition, \$0.3 million related to the write-off of other assets and accrual of costs related to the restructuring and \$1.0 million related to closing our design center located in Singapore. The \$1.0 million charge included \$0.6 million related to write-offs of equipment, software and software leases and \$0.4 million related to other charges associated with the office closing including severance for 21 employees. At September 30, 2002 accrued restructuring costs related to these actions taken in the third quarter 2002 totaled \$0.4 million. Such costs are expected to be settled by the end of 2003.

On October 25, 2002 Microtune began a worldwide reduction-in-force which will result in additional restructuring costs in the fourth quarter 2002.

11. Geographic Information and Significant Customers

The Company's headquarters and main design center are located in Plano, Texas. The Company has other sales offices and design centers in the United States. The Company also has significant design centers in Germany and the Netherlands and a manufacturing facility in the Philippines. Revenues by geographical area are summarized below (in thousands):

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| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---------------------|-------------------------------------|----------|------------------------------------|----------|
| | 2002 | 2001 | 2002 | 2001 |
| North America | \$ 6,432 | \$ 5,142 | \$16,244 | \$21,290 |
| Europe | 4,526 | 3,751 | 14,093 | 11,207 |
| Asia Pacific | 13,045 | 5,982 | 35,087 | 14,303 |
| Other | -- | 140 | -- | 329 |
| | ----- | ----- | ----- | ----- |
| | \$24,003 | \$15,015 | \$65,424 | \$47,129 |
| | ===== | ===== | ===== | ===== |

Sales to DaimlerChrysler accounted for approximately 15% and 22% of consolidated net revenues for the nine months ended September 30, 2002 and 2001, respectively.

Sales to Unical Enterprises, Inc. accounted for approximately 13% of consolidated net revenues for the three months ended September 30, 2002. Sales to DaimlerChrysler and Motorola/General Instruments accounted for approximately 19% and 11%, respectively, of consolidated net revenues for the three months ended September 30, 2001.

Property and equipment are summarized below by location (in thousands):

| | September 30, | December 31, |
|---------------------|---------------|--------------|
| | 2002 | 2001 |
| North America | \$ 8,836 | \$ 7,131 |
| Europe | 2,075 | 3,069 |
| Philippines | 7,378 | 8,210 |
| Asia Pacific | 173 | 859 |
| | ----- | ----- |
| | \$18,462 | \$19,269 |
| | ===== | ===== |

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain statements contained in this Quarterly Report on Form 10-Q, including, without limitation, statements in the discussion and analysis below contain forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, that involve risks and uncertainties, such as statements for the plans, objectives, expectations and intentions of Microtune. Such forward looking statements often contain the words "plan", "could", "would", "may", "believe", "anticipates", "estimates", "expects", and words of similar import, and may constitute forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Readers are referred to the disclosures under the caption "Factors Affecting Future Operating Results and Stock Price" in our 2001 Form 10K Report and in our Form 10Q for the period ended March 31, 2002 which is incorporated by this reference to such reports, which describes factors that could cause actual events to differ materially from those contained in the forward looking statements.

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Financial Information

Since inception we have incurred significant losses, and as of September 30, 2002, we had an accumulated deficit of approximately \$155.3 million. With the acquisition of Transilica, our activities have expanded into the wireless connectivity market with Bluetooth technology and 802.11 technology. We have not previously designed, manufactured, or marketed in this area. Our limited combined operating history combined with business risks, including those risks set forth under the caption "Factors Affecting Future Operating Results and Stock Price" on pages 32 - 48 of our 2001 Annual Report and in our Form 10-Q for the period ended March 31, 2002, make the prediction of future results of operations difficult, and as a result there can be no assurance that we will achieve or sustain revenue growth or profitability.

The time lag between product availability and volume shipment can be significant due to a sales process that includes customer qualification of our products, and can take as long as two years during which we continue to evolve our technology.

We have invested heavily in research and development of our RF integrated circuits and systems technology. We expect to increase our investment in these areas in absolute dollars to further develop our RF products. This investment will include the continued recruitment of RF and analog integrated circuit designers and systems engineers, acquisition of test, development and production equipment and expansion of facilities for research and manufacturing. As a result, we may continue to incur substantial losses from operations for the foreseeable future.

We use IBM, TSMC and X-FAB to manufacture our wafers and Amkor and Carsem to assemble our integrated circuits. We perform final testing, packaging and shipping of our integrated circuits at our facility in Plano, Texas, and overseas at Amkor, Carsem and United Test & Assembly Center. With respect to our tuner modules, we perform most of our assembly and calibration functions in our factory in Manila, Philippines. Test functions of our tuner modules are performed in our factory in Manila, Philippines, at our facility in Huntsville, Alabama and at AMB Electronic in Vohburg, Germany.

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Results of Operations

The following table sets forth, for the periods presented, certain data from our consolidated statements of operations expressed as a percentage of net revenues:

| | Three Months Ended September 30, | | Nine Months End September 30, | |
|------------------------|-------------------------------------|------|----------------------------------|------|
| | 2002 | 2001 | 2002 | 2001 |
| | ---- | ---- | ---- | ---- |
| Net revenues | 100% | 100% | 100% | 100% |
| Cost of revenues | 63 | 66 | 63 | 73 |
| | --- | --- | --- | --- |
| Gross margin | 37 | 34 | 37 | 27 |

Operating expenses:

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| | | | | |
|--|-------|-------|-------|-------|
| Research and development: | | | | |
| Stock option compensation | 11 | 2 | 12 | 2 |
| Other | 40 | 30 | 45 | 25 |
| | --- | --- | --- | --- |
| | 51 | 32 | 57 | 27 |
| Selling, general and administration: | | | | |
| Stock option compensation | 3 | 3 | 3 | 3 |
| Other | 24 | 21 | 25 | 24 |
| | --- | --- | --- | --- |
| | 27 | 24 | 28 | 27 |
| Restructuring costs | 19 | - | 7 | - |
| | --- | --- | --- | --- |
| Amortization of intangible assets and goodwill | 11 | 12 | 12 | 11 |
| | --- | --- | --- | --- |
| Total operating expenses | 108 | 68 | 104 | 65 |
| | --- | --- | --- | --- |
| Loss from operations | (71) | (34) | (67) | (38) |
| Other income (expense) | (1) | (2) | - | 1 |
| | --- | --- | --- | --- |
| Loss before income taxes | (72) | (36) | (67) | (37) |
| Income tax expense (benefit) | 2 | - | 1 | (1) |
| | --- | --- | --- | --- |
| Net loss | (74)% | (36)% | (68)% | (36)% |
| | === | === | === | === |

Comparison of the Three and Nine Months Ended September 30, 2002 and 2001

Net Revenues

Our net revenues increased \$18.3 million, or 39%, to \$65.4 million in the nine months ended September 30, 2002, from \$47.1 million in the nine months ended September 30, 2001. Our net revenues increased \$9.0 million, or 60%, to \$24.0 million in the three months ended September 30, 2002, from \$15.0 million in the three months ended September 30, 2001. This increase is primarily due to growth experienced in the broadband communications sector during the first half of 2002, as well as increased sales from our Bluetooth(TM) wireless connectivity products during the third quarter of 2002. Sales to DaimlerChrysler accounted for approximately 15% and 22% of consolidated net revenues for the nine months ended September 30, 2002 and 2001, respectively. Sales to Unical Enterprises, Inc. accounted for approximately 13% of consolidated net revenues for the three months ended September 30, 2002. Sales to DaimlerChrysler and Motorola/General Instruments accounted for approximately 19% and 11%, respectively, of consolidated net revenues for the three months ended September 30, 2001.

Sales to our twenty largest customers, including sales to their respective manufacturing subcontractors, accounted for approximately 95% and 90% of our revenues for the nine months ended September 30, 2002 and 2001, respectively. We could experience pricing pressures at any point in the future for our products.

Cost of Revenues

Cost of revenues includes the cost of purchases for subcontracted materials, integrated circuit assembly, factory labor and overhead and warranty costs. In addition, we perform final testing of our products and incur cost for the depreciation of our test and handling equipment, labor, quality assurance and logistics. Our subcontracted materials experience cyclical trends in pricing due to fluctuations in demand. Our costs of revenues in the nine months ended September 30, 2002 were \$41.4 million, or 63% of net revenues, compared to \$34.2 million, or 73% of net revenues, in the nine months ended September 30, 2001.

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Our costs of revenues in the three months ended September 30, 2002 were \$15.1 million, or 63% of net revenues, compared to \$10.0 million, or 66% of net revenues, in the three months ended September 30, 2001. Our gross margins in the three and nine months ended September 30, 2002 increased compared to the same periods for 2001 as a result of the consolidation of our factory in Manila in the fourth quarter 2001 and strength in silicon product sales which normally have higher margins. In the near future, we believe gross margins may continue to improve due to increased efficiencies in our factories and increasing levels of our silicon products in our product mix partially offset by increased selling price pressures. However, we do not expect gross margins to consistently increase each quarter. As we add new products to our manufacturing lines, we will incur higher cost of revenues, which may be

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offset over time as we negotiate volume discounts with our suppliers and become more efficient in manufacturing each new product.

Research and Development

Research and development expenses consist of personnel-related expenses, lab supplies, training, prototype subcontract materials, and prototype assembly. We expense all of our research and development costs in the period incurred. Research and development efforts are currently focused primarily on development of the next generation of RF products. Research and development expenses including noncash stock compensation for the nine months ended September 30, 2002 were \$37.1 million, or 57% of net revenues, compared to \$12.9 million, or 27% of net revenues, in the nine months ended September 30, 2001. Research and development expenses including noncash stock compensation for the three months ended September 30, 2002 were \$12.3 million, or 51% of net revenues, compared to \$4.7 million, or 32% of net revenues, in the three months ended September 30, 2001. The increase in research and development expenses primarily reflects the acquisitions of MHDC in October 2001 and Transilica in November 2001, as well as continued recruiting of engineers and increased prototype activity in the silicon design process. We expect that research and development expenses will increase in absolute dollars in future periods, and may fluctuate significantly as a percentage of total revenues from period to period. Stock option compensation related to research and development was \$7.7 million in the nine months ended September 30, 2002 and \$1.0 million in the nine months ended September 30, 2001 and \$2.6 million in the three months ended September 30, 2002 and \$0.3 million in the three months ended September 30, 2001, but does not affect our total stockholders' equity or cash flows. The increase in stock option compensation is due to the Transilica acquisition.

See Note 2 to the financial statements for a discussion on the status of the Company's acquired in-process research and development projects.

Selling, General and Administration

Selling, general and administration expenses include our personnel-related expenses for administration, finance, human resources, marketing and sales, and information technology departments, and include expenditures related to legal, public relations and financial advisors. In addition, these expenses include promotional and marketing costs, sales commissions, shipping costs to customers and reserves for bad debts. Selling, general and administration expenses including noncash stock compensation for the nine months ended September 30, 2002 were \$18.4 million, or 28% of net revenues, compared to \$12.7 million, or 27% of net revenues, in the nine months ended September 30, 2001. Selling, general and administration expenses including noncash stock compensation for the three months ended September 30, 2002 were

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\$6.6 million, or 27% of net revenues, compared to \$3.5 million, or 24% of net revenues, in the three months ended September 30, 2001. The increase relates to significant increases in legal expenses in 2002 due to the lawsuit we filed alleging patent infringement in the United States Court for the Eastern District of Texas, Sherman Division, against Broadcom Corporation (see Note 8 to the financial statements for further discussion of the lawsuit against Broadcom), the additional ongoing expenses resulting from the acquisitions of MHDC in October 2001 and Transilica in November 2001 and recording additional bad debt expenses related to increased accounts receivable. Stock option compensation related to selling, general and administration was \$2.2 million and \$1.4 million in the nine months ended September 30, 2002 and 2001, respectively, and \$0.7 million and \$0.4 million in the three months ended September 30, 2002 and 2001, respectively, but does not affect our total stockholders' equity or cash flows.

Amortization of Intangible Assets and Goodwill

Amortization of intangible assets for the nine months ended September 30, 2002 was \$8.1 million compared to amortization of intangible assets and goodwill of \$5.4 million for the nine months ended September 30, 2001. Amortization of intangible assets for the three months ended September 30, 2002 was \$2.7 million compared to amortization of intangible assets and goodwill of \$1.8 million for the three months ended September 30, 2001. Employment agreements of \$4.1 million less the associated accumulated amortization of \$0.9 million were written off in conjunction with our restructuring efforts in the three months ended September 30, 2002. See Note 10 for further detail on restructuring costs. Amortization of intangible assets and goodwill results principally from our combinations with Microtune KG, MHDC and Transilica. All combinations were accounted for using the purchase method of accounting. Effective January 1, 2002 acquired goodwill and intangible assets with indefinite lives are no longer amortized, but are subject to annual impairment tests in accordance with SFAS No. 142, Goodwill and Other Intangible Assets. Application of the non-amortization provisions of SFAS No. 142 decreased amortization of intangible assets and goodwill by \$4.3 million in the nine months ended September 30, 2002. However, amortization of recorded intangible assets increased by \$7.0 million in the nine months ended September 30, 2002 as the result of the acquisitions of Transilica and MHDC.

During the third quarter of 2002, the Company's market capitalization declined to a level which is less than the Company's net book value. To date, the Company does not believe that such decline is indicative that it is more likely than not that the fair value of the Company's assets, including goodwill, are less than their carrying values. The Company will perform its annual

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assessment of goodwill impairment during the fourth quarter. If the Company's market capitalization remains at its current level during the fourth quarter, the Company believes it is likely that an impairment charge will be required.

Restructuring Costs

Restructuring costs for the three and nine months ended September 30, 2002 were \$4.5 million and there were no restructuring costs for the same periods for 2001. These charges were taken to reduce operating costs and strengthen our ability to focus on core strategic competencies. Of the \$4.5 million charge, \$3.2 million related to the write-off of intangible assets consisting of employment agreements acquired in the Transilica acquisition, \$0.3 million related to the write-off of other assets and accrual of costs related to the restructuring and \$1.0 million related to closing our design center located in Singapore. The \$1.0 million charge included \$0.6 million related to write-offs of equipment, software and software leases and \$0.4 million related

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to other charges associated with the office closing including severance for 21 employees. At September 30, 2002 accrued restructuring costs related to these actions taken in the third quarter 2002 totaled \$0.4 million. Such costs are expected to be settled by the end of 2003.

On October 25, 2002 Microtune began a worldwide reduction-in-force which will result in additional restructuring costs in the fourth quarter 2002.

Other Income and Expense

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

Interest income for the nine months ended September 30, 2002 was \$2.4 million compared to \$2.6 million for the nine months ended September 30, 2001. Interest income for the three months ended September 30, 2002 and 2001 was \$0.7 million. The decrease in interest income is mainly due to the decrease in interest rates for the nine months ended September 30, 2002 as compared to the nine months ended September 30, 2001.

Our functional currency is the U.S. Dollar. The impact from the remeasurement of financial statements of the Subsidiaries not denominated in U.S. Dollars is recognized currently in our results of operations as a component of foreign currency gains and losses. The increase in the foreign currency loss is mainly due to the strengthening of the U.S. Dollar against the Philippine Peso during third quarter 2002.

Other expenses for the three and nine months ended September 30, 2001 included a \$1.0 million one-time write-off due to the uncollectability of a loan which we made in May 2001 to a private radio frequency focused company.

Income Taxes

Prior to our combination with Microtune KG, we had not recognized any provision for income taxes. For U.S. federal income tax purposes, at December 31, 2001, the Company had a net operating loss carryforward of approximately \$72.6 million and an unused research and development credit carryforward of approximately \$1.4 million, which begins to expire in 2011. Due to the uncertainty of our ability to utilize these deferred tax assets, they have been fully reserved.

The provision for the three and nine months ended September 30, 2002 and the provision and benefit for the three and nine months ended September 30, 2001 consists of foreign income taxes and U.S. state taxes. Effective January 1, 2001, the German government reduced corporate tax rates of retained earnings, previously 40%, and earnings distributed as a dividend, previously 30%, to a flat rate of 25%.

Liquidity and Capital Resources

As of September 30, 2002, we had net working capital of \$152.7 million, including \$134.8 million of cash and cash equivalents, compared to net working capital of \$175.4 million, including \$173.1 million of cash and cash equivalents at December 31, 2001. Highly liquid investments with original maturities of three months or less are considered 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 the Company's investment policy.

Operating activities used \$32.1 million in cash during the nine months ended September 30, 2002 compared to \$0.1 million used in operating activities

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for the nine months ended September 30, 2001. The increase in cash used from operations is due to

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increased expenses primarily from acquisitions. In addition, accounts receivable increased due to the growth in our sales volume and inventories have increased due to softening in demand at the end of third quarter 2002.

Investing activities used \$4.3 million in cash during the nine months ended September 30, 2002 compared to \$8.5 million used in investing activities for the nine months ended September 30, 2001. Investments in property and equipment were \$4.0 million and \$7.5 million in the nine months ended September 30, 2002 and 2001, respectively.

Financing activities used \$0.2 million in cash during the nine months ended September 30, 2002 compared to generating \$3.4 million provided by financing activities for the nine months ended September 30, 2001. We received cash of approximately \$1.8 million and \$2.7 million from the sale of common stock upon the exercise of employee stock options and from shares purchased under our Employee Stock Purchase Plan during the nine months ended September 30, 2002 and 2001, respectively. During the first quarter of 2002, we also incurred \$0.5 million for the remainder of costs from our December 18, 2001 follow-on public offering when we issued 5 million shares of common stock resulting in net proceeds of approximately \$109 million. We used cash of approximately \$1.0 million to repurchase shares of our common stock during the nine months ended September 30, 2002.

On July 19, 2002 the Board of Directors authorized a stock repurchase program to acquire outstanding common stock on either the open market or through negotiated transactions. Under the program, up to 10% of the outstanding shares of Microtune common stock can be reacquired. Since the beginning of the program through November 8, 2002, the Company has purchased a total of 4,445,325 shares of its common stock for an aggregate cost of \$7.7 million.

On October 25, 2002 Microtune began a worldwide reduction-in-force which will result in restructuring costs in the fourth quarter 2002.

Microtune KG has a credit agreement with a bank that provides for borrowings of up to \$1.0 million. The agreement is cancelable upon notification by the bank. Borrowings under this agreement bear interest at a rate determined from time to time by the bank. The rate was 7.25% at September 30, 2002. At September 30, 2002, no borrowings were outstanding under this credit agreement.

We believe that our current cash balance will provide adequate liquidity to fund our operations and meet our other cash requirements through at least 2004. However, we may find it necessary or we may choose to seek additional financing if our investment plans change, or if industry or market conditions are favorable for a particular type of financing. If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders will be reduced.

Item 3. Qualitative and Quantitative Disclosures About Market Risk

Information concerning market risk is contained in our 2001 Form 10-K Report and in our Form 10-Q for the period ended March 31, 2002 and is incorporated by reference to these reports.

Item 4. Controls and Procedures

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Pursuant to the Sarbanes-Oxley Act of 2002, we performed an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures were effective as of September 30, 2002. There have been no significant changes in our internal controls or other factors that could significantly affect internal controls subsequent to September 30, 2002.

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Part II Other Information

Item 1. Legal Proceedings

From time to time, we may be involved in litigation relating to claims arising out of our ordinary course of business. We are not currently a party to any material litigation, except as described below.

On January 24, 2001, we filed a lawsuit alleging patent infringement in the United States Court for the Eastern District of Texas, Sherman Division, against Broadcom Corporation. The lawsuit alleges that Broadcom Corporation's BCM3415 microchip infringes on our U.S. patent no. 5,737,035. In our complaint, we are seeking monetary damages resulting from the alleged infringement as well as injunctive relief precluding Broadcom Corporation from taking any further action which infringes our 5,737,035 patent. On May 7, 2002 Broadcom Corporation filed a Motion for Leave to Supplement its counterclaim asking the court's permission to add a counterclaim asserting infringement by Microtune of Broadcom's U.S. patent no. 6,377,315. On June 19, 2002 Broadcom's motion was denied. The trial in this lawsuit is scheduled to commence January 8, 2003. We are unable at this time to determine whether the outcome of the litigation will have a material impact on our results of operations or financial condition in any future period.

On July 15, 2002, Broadcom Corporation filed a lawsuit alleging patent infringement in the United States Court for the Eastern District of Texas, Sherman Division, against the Company. The lawsuit alleges that various Microtune products infringe Broadcom's U.S. patent no. 6,377,315. The complaint is seeking monetary damages resulting from the alleged infringement as well as injunctive relief precluding Microtune from taking any further action which infringes the U.S. patent no. 6,377,315. While we intend to vigorously defend this suit, we are unable at this time to determine whether the outcome of the litigation will have a material impact on our results of operations or financial condition in any future period.

Starting on July 11, 2001, multiple purported securities fraud class action complaints were filed in the United States District Court for the Southern District of New York. We are aware of at least three such complaints: Berger v. Goldman, Sachs & Co., Inc. et al.; Atlas v. Microtune et al.; and Ellis Investments Ltd. v. Goldman Sachs & Co., Inc. et al. The complaints are brought purportedly on behalf of all persons who purchased our common stock from August 4, 2000 through December 6, 2000. The Atlas complaint names as defendants Microtune, Douglas J. Bartek, our Chairman and Chief Executive Officer, Everett Rogers, our former Chief Financial Officer and Vice President of Finance and Administration and current Vice President of Investor Relations, and several investment banking firms that served as underwriters of our initial public offering. Microtune, Mr. Bartek and Mr. Rogers were served with notice on the Atlas complaint on August 22, 2001, however, they have not been served regarding the other referenced complaints. The Berger and Ellis Investment Ltd. Complaints

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assert claims against the underwriters only. The complaints were consolidated and amended on May 29, 2002. Among other things, the complaints allege liability under Sections 11 and 15 of the Securities Act of 1933 and Section 10(b) and 20(a) of the Securities Exchange Act of 1934, 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. We are aware that similar allegations have been made in lawsuits challenging over 180 other initial public offerings conducted in 1998, 1999, and 2000. No specific amount of damages is claimed in the three complaints involving our initial public offering. These cases are subject to the Private Securities Litigation Reform Act of 1995. These cases and all of the other lawsuits filed in the Southern District of New York making similar allegations have been coordinated before the Honorable Shira A. Scheindlin. We believe that the allegations against Microtune, Inc., Mr. Bartek and Mr. Rogers are without merit. We intend to contest them vigorously, including by filing a motion to dismiss these cases. We are unable at this time to determine whether the outcome of the litigation will have a material impact on our results of operations or financial condition in any future period. Furthermore, there can be no assurances regarding the outcome of the litigation or any related claim for indemnification or contribution between or among any of the underwriters and us.

Item 2. Changes In Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

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Item 5. Other Information

During October 2002, the Company 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 the Company 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 will be for the same or lesser number of options cancelled and will have an exercise price equal to the market closing price the day before the grant. New grants will vest 1/54 each month with 6/54 vesting on the date of the new grant. The program ended October 31, 2002 and 1,875,781 shares were cancelled pursuant to the program.

On October 25, 2002 Microtune began a worldwide reduction-in-force which will result in restructuring costs in the fourth quarter 2002.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

12. Computation of Ratio of Earnings to Fixed Charges

99.1 Certificate of the Chief Executive Officer pursuant to 18

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U.S.C. (S)1350 (Section 906 of the Sarbanes-Oxley Act of 2002)

99.2 Certificate of the Chief Financial Officer pursuant to 18
U.S.C. (S)1350 (Section 906 of the Sarbanes-Oxley Act of 2002)

(b) Reports on Form 8-K

On July 22, 2002, we filed a Form 8-K with the Security and Exchange Commission to announce the appointment of Nancy A. Richardson as Chief Financial Officer.

On August 14, 2002, we filed a Form 8-K with the Security and Exchange Commission regarding Item 9. - Regulation FD Disclosure stating that the purpose of the transmittal letter and certifications accompanying our Form 10-Q for the quarter ended June 30, 2002 were furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and were not filed as part of our Quarterly Report on Form 10-Q.

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Signatures

In accordance with the requirements of the Securities Exchange Act of 1934 as amended, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 12, 2002

/s/ Nancy A. Richardson

Nancy A. Richardson
Chief Financial Officer
(Principal Financial and Accounting Officer)

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CERTIFICATION

Pursuant to 18 U.S.C. Section 1350,
as Adopted Pursuant to Section 352 of the
Sarbanes-Oxley Act of 2002

I, Douglas J. Bartek, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Microtune, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined

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in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons fulfilling the equivalent functions):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls;
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ Douglas J. Bartek

Douglas J. Bartek
Chairman and
Chief Executive Officer
(Principal Executive Officer)

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CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, as
Adopted Pursuant to Section 352 of the
Sarbanes-Oxley Act of 2002

I, Nancy A. Richardson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Microtune, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to

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make the statements made, in light of the circumstances under which such statements were made, not misleading;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons fulfilling the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls;
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ Nancy A. Richardson

Nancy A. Richardson
Chief Financial Officer
(Principal Financial and Accounting Officer)