MICROTUNE INC
Form 10-K/A
January 22, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Mark One)

x Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2005

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	**75-2883117**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
2201 10th Street	
Plano, Texas	**75074**

(Address of principal executive offices) **(Zip code)**

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

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

Common Stock, $0.001 par value per share

(Title of Class)

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

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K/A or any amendment to this Form 10-K/A . ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filed ¨

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

As of June 30, 2005, there were 52,208,844 shares of the Registrant s common stock, $0.001 par value per share, outstanding. This is the only outstanding class of common stock of the Registrant. As of that date, the aggregate market value of the shares of common stock held by non-affiliates of the Registrant (based on the closing price of $5.02 per share of Registrant s common stock as quoted by The NASDAQ National Market on that date) was approximately $245.5 million. For the purposes of this disclosure, shares of the Registrant s common stock held by persons who hold more than 10% of the outstanding shares of common stock and shares held by officers and directors of the Registrant have been excluded in that such persons may be deemed to be affiliates. This determination is not necessarily conclusive.

As of February 24, 2006, there were 52,842,432 shares of the Registrant s common stock, $0.001 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s definitive proxy statement for the 2006 annual meeting of stockholders are incorporated by reference into Part III.

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MICROTUNE, INC.

FORM 10-K/A

YEAR ENDED DECEMBER 31, 2005

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS

All statements in this amended Annual Report on Form 10-K/A, other than statements of historical fact, are forward-looking statements. These forward-looking statements reflect our expectations, estimates and projections about our business and our industry, and reflect our beliefs based upon information available to us and our assumptions as of March 3, 2006, the original filing date of the Annual Report on Form 10-K for the year ended December 31, 2005. In some cases, you can identify these statements by words such as if, may, might, will, should, could, w expects, plans, anticipates, believes, estimates, predicts, potential, continue, and other similar terms. These forward-looking stateme among other things, projections of our future financial performance and our anticipated growth, our accounting estimates, assumptions and judgments, the impact of new accounting pronouncements related to the expensing of stock options on our future results, descriptions of our strategies, our product and market development plans, the trends we anticipate in our business and the markets in which we operate, the competitive nature and anticipated growth of those markets, our dependence on a few key customers for a substantial portion of our net revenue, our ability to continue to successfully partner with strategic demodulator partners, our ability to successfully address new markets where competition is intense, the effect of improvements in our stock option granting practices and our ability to enter into any agreement with the IRS to settle certain issues related to our stock option investigation.

We caution readers that, except as set forth below, the forward-looking statements in this amended Annual Report on Form 10-K/A are predictions based on our expectations about future events as of the original filing date of our Annual Report on Form 10-K for the year ended December 31, 2005 and, therefore, you should not rely on these forward-looking statements. Forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. Our actual results, performance or achievements could differ materially and adversely from those expressed or implied by any forward-looking statements. In addition to the other information in this amended Annual Report on Form 10-K/A, we encourage you to review the information regarding the risks and uncertainties associated with our business set forth in Item 1A Risk Factors and in our other filings with the United States Securities and Exchange Commission, or SEC. We have not updated any forward-looking statements in this amended Annual Report on Form 10-K/A for events occurring after the original filing date except for forward-looking statements related to the Audit Committee s investigation or the restatement in the sections of this amended Annual Report on Form 10-K/A identified in the Explanatory Note below. Please read our reports filed subsequent to the original filing date pursuant to the Securities Exchange Act of 1934, as amended, which update and supersede certain information contained in the original Annual Report on Form 10-K and in this amended Annual Report on Form 10-K/A. We undertake no obligation to update the forward-looking statements in this amended Annual Report on Form 10-K/A.

EXPLANATORY NOTE

We are amending our Annual Report on Form 10-K for the year ended December 31, 2005, filed on March 3, 2006, to restate our consolidated financial statements for the years ended December 31, 2005, 2004 and 2003 and certain related disclosures. This amended Annual Report on Form 10-K/A also includes the restatement of selected consolidated financial data as of and for the years ended December 31, 2005, 2004, 2003, 2002, 2001, 2000 and 1999, which is included in Item 6, Selected Financial Data, and the unaudited quarterly financial data for each of the quarters in the years ended December 31, 2005 and 2004, which is included in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations, Quarterly Financial Information. See Note 2, Restatement of Consolidated Financial Statements, to the Notes to Consolidated Financial Statements for a detailed discussion of the effect of the restatement.

The restatement of the consolidated financial statements for the years ended December 31, 2005, 2004 and 2003 from our original Annual Report on Form 10-K reflected in this amended Annual Report on Form 10-K/A includes adjustments arising from the determinations of the Audit Committee of our Board of Directors, which conducted an investigation into our past stock option grant practices, with the assistance of independent legal counsel, independent accounting advisors, and our regular tax advisors, as well as our own internal review relating to these matters.

The financial impact of the Audit Committee s findings on our consolidated financial statements for the years ended December 31, 1999 through 2006 is as follows (in thousands):

	Year Ended December 31,								
	2006	2005	2004	2003	2002	2001	2000	1999	Total
Category 1: Improper measurement date for stock option	$ 61	$ 508	$ 525	$ 1,169	$ 3,513	$ 823	$ 21	$	$ 6,620

grants									
Category 2: Modifications to stock option grants			(7)	(80)	199	244	71	99	526
Category 3: Employee stock purchase plan		30	74	16	10	62			192
Category 4: Stock option grants to non-employees			5	68	44	153	785	133	1,188
Total stock-based compensation expense	61	538	597	1,173	3,766	1,282	877	232	8,526
Category 5: Related tax liabilities	304	109	141	11	2	7			574
Total	$ 365	$ 647	$ 738	$ 1,184	$ 3,768	$ 1,289	$ 877	$ 232	$ 9,100

For more information on these matters, please refer to Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Restatement of Consolidated Financial Statements, Audit Committee and Company Findings, Remedial Measures and Related Proceedings, Item 9A, Controls and Procedures and Note 2, Restatement of Consolidated Financial Statements, to the Notes to Consolidated Financial Statements.

We have not amended and we do not intend to amend any of our previously filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for the periods affected by the restatement other than this amended Annual Report on Form 10-K/A and our amended Quarterly Report on Form 10-Q/A for the quarter ended March 31, 2006 filed contemporaneously herewith. For this

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reason, the consolidated financial statements and related financial information contained in our previously filed reports should no longer be relied upon. Except for the sections of this amended Annual Report on Form 10-K/A identified below, all of the information in this amended Annual Report on Form 10-K/A is as of December 31, 2005 and does not reflect events occurring after the filing of the original Annual Report on Form 10-K on March 3, 2006, and does not modify or update disclosures (including the exhibits to the original Annual Report on Form 10-K, except for the updated Exhibits 31.1, 31.2, 32.1, and 32.2 described below) affected by subsequent events. Accordingly, this amended Annual Report on Form 10-K/A should be read in conjunction with our periodic filings made with the SEC subsequent to the date of the original Annual Report on Form 10-K, including any amendments to those filings, such as the amended Quarterly Report on Form 10-Q/A for the quarter ended March 31, 2006, as well as any Current Reports filed on Form 8-K subsequent to the date of the filing of the original Annual Report on Form 10-K. In accordance with applicable SEC rules, this amended Annual Report on Form 10-K/A includes updated certifications from our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) as Exhibits 31.1, 31.2, 32.1 and 32.2.

For the convenience of the reader, this amended Annual Report on Form 10-K/A sets forth the original Annual Report on Form 10-K in its entirety, as amended to reflect the restatement. The following items have been amended principally as a result of, and to reflect, the restatement, and no other information in the original Annual Report on Form 10-K is amended hereby as a result of the restatement:

Part I	Item 1	Business Technology, Intellectual Property, Research and Development;
Part I	Item 1A	Risk Factors;
Part I	Item 3	Legal Proceedings;
Part II	Item 5	Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities;
Part II	Item 6	Selected Financial Data;
Part II	Item 7	Management s Discussion and Analysis of Financial Condition and Results of Operations;
Part II	Item 8	Financial Statements and Supplementary Data;
Part II	Item 9A	Controls and Procedures; and
Part IV	Item 15	Exhibits and Financial Statement Schedules.

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PART I

ITEM 1. BUSINESS

Website Access to Reports and Other Information

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

Overview

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

The cable, digital TV and automotive markets are intensely competitive and historically have seen rapid changes in demand. Our markets are also characterized as having short product life cycles due to rapid technological changes. This often results in rapidly decreasing average selling prices, which makes product cost reduction efforts, involving both product design and manufacturing processes, critical. The volatility of demand within our target markets makes it difficult for us to identify and discuss business trends or to predict future results.

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

Cable

This market includes products that send and/or receive cable broadband signals. These products are designed for use in RF electronics, from upconverters in the cable head-end to tuners in consumer devices, including cable high-speed data modems, cable high-speed voice modems, and digital and analog set-top boxes.

Digital TV

This market includes products that receive terrestrial and cable signals. These products are designed for use in consumer electronics devices such as mobile (handheld) TVs; digital TVs, including high-definition TVs (including projection, Digital Light Processor (DLP®), plasma and liquid crystal display (LCD) systems); digital TV set-top converter boxes; satellite receivers that include a terrestrial tuner; VCRs; portable DVD players; digital personal video recorders (DVRs); and PC/TV multimedia products.

Automotive Electronics

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

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Some of our customers are distributors who resell our products to various manufacturers. Often our distributors do not provide us with the identity of their customer, or if they do, we may not have visibility into the type of device being manufactured. In these cases, the revenue is not associated with a market.

Business Strategy

Our mission is to be the leading supplier of RF tuner technology in our target markets. Key elements of our strategy to accomplish our mission include:

- Focus on RF tuner technology and products where our experience, expertise and patent portfolio provide strategic and competitive advantages.
- Leverage our RF systems expertise to help our customers design superior performing and cost effective applications and devices.
- Leverage our core technologies and experience in real-world TV environments to provide silicon solutions for emerging mobile TV, digital TV and PC/TV multimedia markets.
- Protect or increase our opportunities through expanded relationships with existing or new key partners.
- Combine our RF IC and systems expertise and established products to expand our presence in automotive electronics as this market transitions to highly integrated RF IC solutions.

Organization

To implement our strategy effectively, our systems engineering and marketing teams are organized into two specialties: cable/digital TV and automotive electronics. Our IC design, product and test engineering, mechanical design, quality, marketing communications, investor relations, sales, finance and accounting, information technology, legal, operations and human resources teams are centralized to achieve operational efficiencies.

During 2002 and 2003, we implemented a restructuring plan to reduce operational costs and structural expenses with the goals of reducing our losses and achieving profitability. We closed or sold certain design facilities, closed selected sales offices, eliminated development activity on certain products with limited near-term revenue potential, sub-contracted the manufacturing of our subsystem module products, shutdown our internal manufacturing operations for such products and implemented staff reductions.

Markets

During the last 10 years, the worldwide reliance on the internet; the transition to digital technologies; the rise of broadband, mobile and wireless communications; and the growing interrelation of TVs, PCs, cable communications and the internet, coupled with an end-user desire for mobility, have fostered dramatic changes in business and consumer electronics, broadband communications and automotive electronics. These drivers have propelled the development of new classes of products and new forms of entertainment and information, based on innovative technologies that deliver better, faster, and improved mobile communications.

Cable

According to an In-Stat/MDR study, total worldwide cable subscribers are projected to reach 400 million by 2008. During the last several years, the worldwide cable industry has evolved from a supplier of analog video programming to a competitive provider of digital voice, data and

video services. In-Stat/MDR predicts that nearly 100 million households will be subscribing to digital video service by 2008.

In order to support these new services, cable operators continue to invest in new technology and infrastructure to upgrade their networks to deliver consumers more channels, digital and HDTV programming, high-speed data communications, home networking, and two-way interactive services, including digital telecommunications and on-demand

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services. As a part of this upgrade, cable operators continue to deploy new classes of digital consumer equipment that allow users to access a range of enhanced services such as:

Modems: Cable modems, as stand-alone devices, or as integrated into set-top boxes, which enable high-speed internet service via two-way cable; and voice over Internet Protocol (VoIP) cable modems, which enable digital phone and high-speed internet service via two-way cable; and

Set-top Boxes: Digital interactive set-top boxes, which serve as the home access point for a number of services, including high-definition (HD), standard-definition (SD) and analog channels and new applications such as DVRs and on-demand services. In some deployments, the digital interactive set-top box is evolving into a home gateway, a multifunctional box designed to serve as the distribution hub for home networked video, voice and/or data services.

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

We provide tuners and amplifiers for cable modems, set-top boxes and VoIP cable telephony systems, which support the two-way transmission of data to and from the consumer and the cable operator s head-end. Multiple tuners are increasingly implemented in cable set-top boxes to support simultaneous viewing of one channel while recording a second channel using a DVR, on-demand services, and internet access. In the head-end itself, we also provide IC and subsystem module upconverter solutions for the power-, cost- and space-efficient RF delivery of on-demand and other services.

Digital TV

Terrestrial TV

The worldwide transition to digital technologies represents a massive technology transformation. In North America alone, IMS Research estimates that more than 300 million analog TV receivers will need to be converted to digital TV receivers. As originally conceived, the idea of digital TV was to deploy improved bandwidth efficiency techniques to provide either a picture with much greater detail than existing TV, or multiple digital video streams within the bandwidth of an existing analog channel. Any digital data, from digital video and audio to internet data, can be broadcast using digital transmission.

The definition of terrestrial digital TV is determined by standards adopted by various countries: the Advanced Television Systems Committee (ATSC) standard is deployed primarily in North America and the Digital Video Broadcast Terrestrial (DVB-T) standard is implemented in Europe and other parts of the world. The Digital Video Broadcast Handheld standard (DVB-H), targeted for mobile handheld devices, is expected to be implemented in the United States, Europe and other parts of the world.

To receive digital TV or other digital services, consumers require new kinds of products. Manufacturers have and continue to develop products with different combinations and options to see what consumers will buy. These new digital TV products include HDTVs; widescreen, DLP, LCD and plasma displays; digital set-top boxes that decode the digital signal for display on analog TV s; DVRs; mobile phones; notebook PCs or other portable handheld devices capable of receiving broadcast digital TV; and other TV peripherals.

Driven by government mandates, terrestrial digital video transmission has already begun in a number of countries, including the United States, Germany, France, Italy, the United Kingdom, Australia and Japan, and the number of markets for digital TV sets and related peripheral products is beginning to grow. We estimate that approximately 18 million set-top boxes and integrated digital television sets supporting the DVB-T standard have been shipped in 2005, predominantly in the United Kingdom, Italy, and Germany. We project this number to grow to nearly 24 million units in 2006 as additional countries begin services using the DVB-T standard and as DVB-T tuners begin to become a standard

feature for some television sets.

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In the United States, actions by the Federal Communications Commission (FCC), backed by Congress and supported by industry organizations, are driving the transition to digital television technology. The FCC has adopted a plan that requires the inclusion of off-air digital TV tuners in all new digital television sets, greater than 13 inches by July 1, 2007. In addition, all TV interface devices that include a tuner (VCRs, DVD players or other peripherals) must come equipped with digital TV tuners by the July 1, 2007 target date as well. Most recently, the FCC has proposed a new target date of December 31, 2006, by which all TVs and interface devices, including those less than 13 inches, must comply with the digital tuner mandate.

Because different transmission formats are used for digital terrestrial broadcasting and digital cable systems in the United States, digital televisions generally have not been able to directly receive and decode digital signals from cable operators. The FCC addressed this shortcoming by adopting rules that will allow televisions to receive digital cable signals without the need for an external set-top box. The FCC created standards for digital cable ready (DCR) TV sets.

In early 2006, Congress passed a bill, which the President signed into law, that requires the turn off of analog signals in the United States by February 17, 2009. To ensure that all households can receive digital off-air television, this new law also includes a provision to subsidize the cost of digital set-top boxes that decode the digital signal for display on analog TVs (digital converter boxes) for those who might otherwise not be able to afford the cost to convert to digital TV. The law and FCC mandates are expected to significantly impact the deployment of digital TV products in coming years.

Consumers desire to combine big-screen televisions with high-definition video and full surround sound audio systems has also been a key factor in driving sales of digital TV products. According to the Consumer Electronics Association (CEA), more than 32 million DTV products have been sold in the United States since 1998. In 2006, the CEA estimates that over 15 million DTV products will be sold, with HDTVs outselling analog TVs for the first time.

We provide tuners and amplifiers used for the RF tuning and reception of signals for digital television products.

Mobile TV

The convergence of consumer applications on mobile devices has demonstrated that there is substantial consumer interest in the ability to access entertainment and information while on the go. This is the premise behind the emergence of a new class of mobile, battery-powered devices, including mobile phones, that can deliver digital broadcast services. Mobile TV broadcast, which holds substantial promise as the next stage in the worldwide rollout of digital TV, is expected to offer new consumer services.

Many of the technical, commercial and regulatory issues for the delivery of mobile TV broadcasts have already been addressed. Standards such as DVB-H and Integrated Services Digital Broadcast Terrestrial One-Segment (ISDB-T one-segment) have been specified and approved by standards bodies to support the mobile broadcast digital television model. Since mobile devices have unique requirements in terms of power-consumption, screen size and mobility, new technologies, including DVB-H compliant tuners and demodulators, are or will be developed to enable these services. In addition, DVB-H trials in Europe and the United States have verified system feasibility and launches of DVB-H services are expected in Germany, Italy, Spain and the United States in 2006 and 2007. More importantly, the concept of mobile TV has been embraced by major mobile phone manufacturers and many have announced or are expected to announce mobile TV products.

IMS Research expects a total of more than 70 million DVB-H handsets to be shipped during the next three years. By the end of the decade, IMS projects that it is likely that mobile TV capability will become a must-have feature for manufacturers of all types of portable multimedia devices.

We provide very low-power tuners for the RF tuning and reception of signals for DVB-H-based mobile digital television products.

PC/TV Multimedia Entertainment

The advent of digital broadcast television is expected to be an important factor in the market for a new class of PC/TV products, the multimedia PC. These personal entertainment PCs converge personal computing with high-grade audio-visual capabilities, combining the functionality of a PC, TV, CD player and DVD recorder in a versatile platform. PC/TV tuners are emerging as essential components in these computers, including portable and desktop models. By 2008, In-Stat/MDR expects worldwide annual shipments of entertainment PCs to exceed 15 million units.

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We provide tuners and amplifiers used for the RF tuning and reception of signals for multimedia PC products.

Automotive Electronics

Technology convergence and integration is beginning to impact the automotive and airline industries. In the automotive market, for example, low-cost communications, navigation, information and entertainment technologies are combining with traditional in-car display and audio systems to create new applications and potential new markets for in-car systems. Driven by consumer demand, new applications are rapidly evolving beyond the conventional car audio system to include digital sound systems, digital radio, such as digital audio broadcast, and HD radio™ and a suite of applications that allow passengers to watch digital TV and video and play interactive games. These newer applications are expected to gain growing consumer acceptance during the next decade, driving continued market opportunity for providers of these products and services and for suppliers of the underlying technology.

Currently, the majority of our products sold into the automotive market are utilized in car TVs and AM/FM radios. Demand for car TV and newer digital radio is expected to grow rapidly as automakers begin offering a range of systems in more vehicles, moving from luxury cars into mid-priced models. IMS Research forecasts that the worldwide market for in-car audio, infotainment and driver information systems will grow from an estimated 127.8 million units in 2005 to 152.4 million units in 2008. ABI Research forecasts that the worldwide automotive market for digital radio will grow from an estimated 2.6 million units in 2005 to 20.3 million units in 2010.

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

Products

The applications or devices associated with the cable, digital TV and automotive markets require high levels of RF performance, power efficiency, functionality and integration. Our products are engineered to address the complex, high-performance RF requirements of broadband transmission and reception.

We classify our products into two types: ICs (also referred to as silicon) and subsystem-level RF solutions (called Modules).

Integrated Circuit Products

We offer a product portfolio that includes:

MicroTuner Single-Chip Broadband Tuners

Our premier products are our single-chip MicroTuner IC tuners. In 1999, we introduced the world s first broadband television tuners with all active components implemented in a single microcircuit. We believe our MicroTuner chips are one of the few single chip integrated circuit TV tuners in high volume production today that incorporate all of the active elements of a RF broadband tuner, including low-noise and intermediate frequency amplifiers. Our MicroTuner chips are based on both a patented architecture and multiple patented integrated circuit implementations.

Silicon Amplifiers

We offer a family of amplifiers, including upstream amplifiers, Intermediate Frequency (IF) amplifiers and broadband antenna amplifiers, which can be used as companion products to our single-chip tuners, or used separately. These products enable or support a variety of specialized functions, including high-speed upstream cable communications and the distribution of a broadband signal across multiple tuners. Our silicon amplifiers support these functions by conditioning signals within the RF front end and boosting them for distribution through a system. The amplifiers also enable two-way communications capability in cable access applications and provide downstream amplification in automotive radio and in-car TV applications.

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VideoCaster Chipset

We offer the VideoCaster chipset and Module for cable video-on-demand (VOD) applications. With this product family, we believe we have achieved a technological and size breakthrough in upconverters by developing three silicon chips to replace many of the discrete parts contained in other upconverters. In doing so, we significantly reduced the size and power consumption of the RF electronics, when compared with the smallest known upconverter.

Subsystem-Level RF Solutions

Our subsystem-level products, called Modules, are RF solutions consisting of tuner and/or transmit/receive functions that are pre-assembled into tested, production-ready RF front-ends. Our subsystem solutions are available for multiple applications, including cable telephony, PC/TV multimedia, analog and digital car radio, analog and digital car TV, digital TV, antenna amplifiers and cable head-end upconverters.

Some of our subsystem-level products contain our own IC components, such as in the VideoCaster Module, which provide a competitive advantage through high levels of functional integration. Our Modules are pre-configured and pre-tested for ready placement on motherboards, printed circuit boards or chassis.

See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations for discussions of net revenue by product group.

Technology, Intellectual Property, Research and Development

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

As of December 31, 2005, we had more than 90 RF and communications systems technical personnel. Our technical team represents one of our most important strategic and competitive assets. Our team, comprised of RF and analog IC design experts, systems engineers, and product and test engineers, enables us to produce differentiated RF IC and subsystem module solutions for applications in our targeted markets. Team members are located in our design centers in Plano, Texas, Plantation, Florida and Ingolstadt, Germany.

We believe we have a strong intellectual property portfolio, which is of vital importance to our business as many of our competitors are larger, more diversified companies with substantially greater financial resources. Our ability to protect our proprietary innovations from exploitation by our competitors is crucial to our future success. We have in the past and will continue to vigorously pursue and maintain protection for the proprietary technology used in our products. Currently, we hold 59 issued United States utility patents and have more than 37 additional United States patent applications pending. Our issued United States patents begin to expire in 2015. Our patents cover various aspects of our RF and analog technologies at the broad architectural, circuit and building-block levels.

See Part IV, Item 15, Exhibits and Financial Statement Schedules for our patent license agreement with Broadcom Corporation.

Our research and development expenses were $16.5 million, $15.6 million and $24.2 million for 2005, 2004 and 2003, respectively. Of these amounts, stock-based compensation expense comprised $0.5 million, $1.0 million and $2.5 million, respectively. We sponsor the majority of our research and development activities. See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations for a discussion of research and development expenses. As discussed in Note 2, Restatement of Consolidated Financial Statements, to the Notes to Consolidated Financial Statements, previously reported stock-based compensation expense was adjusted as part of the restatement of our consolidated financial statements for the years ended December 31, 2005, 2004 and 2003 and certain related disclosures.

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Sales and Marketing

As of December 31, 2005, our worldwide sales organization consisted of over 35 employees with offices located throughout the United States: Plano, Texas; Huntsville, Alabama; Atlanta, Georgia; Chicago, Illinois; Campbell, California; Solano Beach, California; and Raleigh, North Carolina, and in regional centers around the world: Ingolstadt, Germany; Taipei, Taiwan; Tokyo, Japan; Shenzhen, China and Seoul, South Korea. Our sales organization consists of technical sales, service and customer support professionals and includes a field application engineering staff that is involved with customers during various phases of design and production. The field applications engineering function, located throughout our worldwide sales offices, is a critical element in achieving customer design wins. We also provide customers with application engineering support from our Plano and Ingolstadt systems engineering personnel.

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

Historically, revenues from international markets have represented the majority of our total revenues. See Item IA, Risk Factors for a description of this and other risks. See Note 15, Geographic Information and Significant Customers to the Notes to Consolidated Financial Statements for a discussion of financial information by geographic area.

Backlog

Our sales are made primarily pursuant to standard purchase orders for delivery of products. Due to industry fluctuations in the supply and demand balance for component parts, resulting in frequent and potentially significant changes in the lead times provided by customers when placing purchase orders, we do not believe that backlog is a reliable indicator of future revenue levels.

Customers

We market and sell our ICs and subsystem module solutions directly to OEMs, ODMs and their suppliers who sell devices or applications to consumers, other OEMs or service providers (cable) within the cable, digital TV and automotive markets. The devices or applications that our customers produce include cable TV set-top boxes; cable high-speed data modems; cable high-speed voice modems enabling cable-based digital phone services; car audio, video and antenna amplifier systems; digital/analog TVs, including high-definition TVs; personal computer television (PC/TV) multimedia products; and mobile TVs. We also market and sell to third-party manufacturers and to distributors who sell directly to the OEMs and ODMs. We engage with customers at multiple levels within their organization; provide design and systems services and applications engineering support; and align product roadmaps to meet their product requirements.

We supplied our IC and Module products to more than 70 customers worldwide during the year ended December 31, 2005, including the following:

Cable: Advanced Digital Broadcast, Askey, Asustek Computer, primarily for the benefit of ARRIS, Cisco, Hitron, Motorola, Pace, Samsung, Scientific-Atlanta, and Tellabs.

Digital TV: ATI Technologies, Echostar, Toshiba, Pinnacle and Samsung.

Automotive Electronics: Delphi/Fuba Automotive, Harman Becker Automotive Systems, Hirschmann Car Communications, Lear, Panasonic, Rockwell Collins and Thales.

See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations for a discussion of net revenue for significant customers.

Manufacturing

We use subcontractors for IC wafer production, die packaging and testing. This allows us to eliminate the high capital requirements of owning and operating semiconductor fabrication, packaging and test facilities. It also enables us to focus on the design of our IC products as well as providing engineering support to our customers, where we believe we have the best opportunity to create and maintain competitive advantage.

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We have established relations with IC wafer foundries, IBM Microelectronics, Jazz Semiconductor and X-FAB, to help ensure our future demands are in line with their manufacturing technology roadmaps and capacities. These foundries offer a mature BiCMOS production process. In addition, IBM and Jazz Semiconductor offer advanced silicon germanium (SiGe) process technology. We are currently in the process of qualifying Jazz Semiconductor as an alternate source for SiGe process technology. Our reliance on third-party suppliers involves risks such as reduced control over delivery schedules, quality assurance and fabrication costs and the risk of material supply disruptions. See Item 1A, Risk Factors for a description of risks associated with reliance upon third-party suppliers.

We use Amkor in Korea and in the Philippines and ASE in Korea for IC packaging and final test. We use Criteria Labs in Austin, Texas for wafer probe and in Penrose, Colorado for tape and reel packaging. We also use ISE in Austin, Texas for wafer probe. Criteria Labs recently emerged from bankruptcy proceedings. We also perform RF testing at our facility in Plano, Texas. We are currently in the process of qualifying another source for assembly, test and packaging. Our reliance on these subcontractors and on certain third-party test equipment manufacturers involves risks such as reduced control over delivery schedules, quality assurance and costs. See Item 1A, Risk Factors.

We closed our manufacturing facility in the Philippines during 2003, where we built almost all our RF Module subsystem solutions, and sold most of the facility s manufacturing equipment and raw material inventories to Three-Five Systems, Inc (TFS). Simultaneously, we agreed to subcontract the majority our RF Module subsystem manufacturing to TFS. See Note 4, Acquisitions and Dispositions, to the Notes to Consolidated Financial Statements. During 2005, we entered into a five-year Manufacturing Agreement with Ionics EMS, Inc. (Ionics), a leading provider of electronics manufacturing services in the Philippines. Ionics replaced TFS as our RF subsystem module manufacturing partner. See Note 3, Subsystem Module Manufacturing Partner, to the Notes to Consolidated Financial Statements. We are exposed to manufacturing risks as a result of our dependence on a single manufacturing facility and a single sub-contractor for our subsystem module solutions. See Item 1A, Risk Factors. We also use Katek in Germany to build a small portion of our RF Module products.

We place orders with our suppliers based on forecasts of customer demand and, in some instances, may establish buffer inventories to accommodate anticipated demand. See Item 1A, Risk Factors.

Competition

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

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

- Conformity to industry standards;
- Performance improvements;
- Price reductions;
- Differentiating product features;
- Time-to-market for new products;

Quality and reliability;

Application engineering support; and

Adaptability and flexibility to meet customers and target markets requirements.

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Cable

Our major RF tuner competitors in the cable market include Alps, Anadigics, Broadcom, Freescale, Panasonic and Philips.

Digital TV

Our major RF tuner competitors in the digital TV market include Alps, Broadcom, DiBcom, Freescale, LG Innotek, Philips, RF Magic, Samsung Electro-Mechanics, Siano, Texas Instruments, Thomson and Xceive.

Automotive Electronics

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

Environmental Matters

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

Beginning in July 2006, our product shipments into certain regions of the world must be lead-free. We currently have lead-free versions of our silicon products and we are in the process of altering our applicable subsystem module solutions to also be lead-free. See Item 1A, Risk Factors.

Employees

As of December 31, 2005, we had a total of 178 employees worldwide, including 93 in research and development, 38 in sales and marketing and 47 in operations, finance and administration. Of these employees, 105 were located in the United States.