MICROTUNE INC
Form 10-Q
May 15, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2002

OR

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

For the transition period from ____________________ to ____________________

Commission file number 000-31029-40

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 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 [X] NO

As of April 30, 2002, 53,344,304 shares of the Registrant's common stock were outstanding.

Microtune, Inc.

FORM 10-Q
March 31, 2002

INDEX

PART I Financial Information

Item 1. Financial Statements

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

Assets	March 31, 2002
Current assets:	
Cash and cash equivalents	$ 164,247

Accounts receivable, net of allowance for doubtful accounts of $682 at March 31, 2002 and $592 at December 31, 2001	13,853
Inventories	9,498
Deferred income taxes	388
Other current assets	1,103
Total current assets	189,089
Property and equipment, net	18,393
Intangible assets, net of accumulated amortization of $6,516 at March 31, 2002 and $3,841 at December 31, 2001	61,602
Goodwill, net of accumulated amortization of $11,210 at March 31, 2002 and December 31, 2001	51,040
Deferred income taxes	1,382
Other assets and deferred charges	1,437
Total assets	$ 322,943
Liabilities and Stockholders' Equity	
Current liabilities:	
Accounts payable	$ 6,187
Accrued expenses	11,858
Accrued compensation	2,460
Total current liabilities	20,505
Deferred income taxes	320
Other noncurrent liabilities	2,280
Commitments	
Stockholders' equity:	
Preferred stock, $0.001 par value per share Authorized shares - 25,000 at March 31, 2002 and December 31, 2001	-
Common stock, $0.001 par value per share Authorized shares - 150,000 at March 31, 2002 and December 31, 2001; issued and outstanding shares - 53,275 at March 31, 2002 and 52,737 at December 31, 2001	53
Additional paid-in capital	449,851
Unearned stock compensation	(24,657)
Loans receivable from stockholders	(296)
Accumulated other comprehensive loss	(988)
Accumulated deficit	(124,125)
Total stockholders' equity	299,838
Total liabilities and stockholders' equity	$ 322,943

See accompanying notes.

Microtune, Inc.

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

	Three Months End March 31,	
	2002	
Net revenues	$ 18,243	$ 1
Cost of revenues	11,450	1
Gross margin	6,793	
Operating expenses:		
Research and development:		
Stock option compensation	2,577	
Other	8,777	
	11,354	
Selling, general and administration:		
Stock option compensation	758	
Other	5,344	
	6,102	
Restructuring costs	54	
Amortization of intangible assets and goodwill	2,684	
Total operating expenses	20,194	1
Loss from operations	(13,401)	(
Other income (expense):		
Interest income, net	821	
Foreign currency translation and transaction gains (losses), net	(348)	
Other	(118)	
Loss before income taxes	(13,046)	(
Income tax expense (benefit)	71	
Net loss	$ (13,117)	$ (
Basic and diluted loss per common share	$ (0.25)	$
Weighted-average shares used in computing basic and diluted loss per common share	52,389	3

See accompanying notes.

Microtune, Inc.

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

Three Months E

	2002
Operating activities:	
Net loss	$(13,117)
Adjustments to reconcile net loss to net cash used in operating activities, net of effects of business combination:	
Depreciation	1,691
Amortization of intangible assets	2,684
Amortization of goodwill	-
Foreign currency translation and transaction gains (losses), net	348
Amortization of deferred stock option compensation	3,335
Deferred income taxes	39
Changes in operating assets and liabilities:	
Accounts receivable	727
Inventories	(97)
Other assets	1,903
Accounts payable	(1,669)
Accrued expenses	(3,185)
Accrued compensation	104
Net cash used in operating activities	(7,237)
Investing activities:	
Purchases of property and equipment	(1,244)
Sale of property and equipment	428
Loans receivable	(122)
Purchase of intangible assets	(150)
Net cash used in investing activities	(1,088)
Financing activities:	
Proceeds from issuance of common stock upon exercise of stock options and from shares purchased under Employee Stock Purchase Plan	571
Loans receivable from stockholders	(261)
Other, net	(539)
Net cash provided by (used in) financing activities	(229)
Effect of foreign currency exchange rate changes on cash	(348)
Net change in cash and cash equivalents	(8,902)
Cash and cash equivalents at beginning of period	173,149
Cash and cash equivalents at end of period	$164,247

See accompanying notes.

Microtune, Inc.

Notes to Consolidated Financial Statements

March 31, 2002

(unaudited)

1. Basis of Presentation

General

The accompanying unaudited financial statements as of and for the three months ended March 31, 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 months ended March 31, 2002 have been made. Results of operations for the three months ended March 31, 2002, are not necessarily indicative of results of operations to be expected for the entire year.

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 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 other intangible assets beginning December 31, 2001. Intangible assets that do not meet the criteria for recognition apart from goodwill must 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 7 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 assuming the nonamortizaton provisions of SFAS No. 142 were effective January 1, 2001 (in thousands, except per share data):

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
Net Loss:		
Reported net loss	$(13,117)	$ (5,544)

Goodwill and workforce amortization	-	1,432
Adjusted net loss	$(13,117)	$ (4,112)
Basic and diluted loss per common share:		
Reported net loss	$ (0.25)	$ (0.14)
Goodwill and workforce amortization	-	0.03
Adjusted net loss	$ (0.25)	$ (0.11)

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 will be impacted if future operating cash flows of the company are not achieved, resulting in decreases in the related estimated fair market values.

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.

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 831,967 Transilica stock options. The merger agreement also provided that approximately 15% of the total shares of the Company's common stock 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)	$130,072
Fair market value of 831,967 Transilica stock options assumed ..	13,937
Transaction costs	2,130
Total acquisition cost	$146,139

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	$ 386
Noncurrent assets and liabilities, net	2,368
Developed technology	36,200
Patents	19,300
Employment and non-compete agreements	5,010
Goodwill	28,546
Acquired in-process research and development costs charged to expense	32,400
Unearned stock compensation	21,929
Total acquisition cost	$146,139

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 the employee to vest in the stock options and restricted common stock shares. The amount allocated to unearned 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. The final allocation of the purchase price, which is expected to be complete in the third quarter of 2002, will be based on the complete evaluation of the acquired assets and liabilities.

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	$3,000
Fair market value of 210,000 shares of common	2,144
Transaction costs	319
Total acquisition cost	$5,463

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)	$ (335)
Noncurrent assets and liabilities, net	(1,003)
Developed technology	567
Goodwill	4,726
Acquired in-process research and development costs charged to expense	1,706
Deferred income taxes	(198)

Total acquisition cost	$ 5,463

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.

				Estimated/Actual Cost/Time t Complete Projects
Entity Acquired	Acquisition	In Process	Discount	At March 31

	Date	Projects	Rate	At Acquisition	2002
Transilica Inc.	Nov. 2001	Short-range wireless applications	35%	$3.2 million/ Oct. 2002	$3.0 million Oct. 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):

	Three Months Ended March 31, 2002	2001
Stock options	8,347	7,779
Restricted common stock	665	180
Employee stock purchase plan	20	28
Total anti-dilutive securities excluded	9,032	7,987

4. Cash and Cash Equivalents

The Company considers highly liquid investments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents consist of bank deposits, money market funds and asset-backed commercial paper. The Company's investments in asset-backed commercial paper are comprised of high-quality securities in accordance with the Company's investment policy.

5. Inventories

Inventories consists of the following (in thousands):

	March 31, 2002	December 31, 2001
Finished goods	$ 722	$ 1,654
Work-in-process	2,972	1,550
Raw materials	5,804	6,197
	$ 9,498	$ 9,401

Inventories are stated at the lower of standard cost, which approximates actual cost determined on a first-in, first-out basis, or estimated realizable value.

6. Property and Equipment

Property and equipment, at cost, consists of the following (in thousands):

	March 31, 2002	December 31, 2001	Useful Life
Leasehold improvements	$ 1,514	$ 1,519	5 years
Manufacturing equipment	14,351	14,609	3 years
Other equipment	8,395	7,936	3 years
Furniture and fixtures	832	885	3 years
Computer software	5,585	4,863	3 years
Total property and equipment ...	30,677	29,812	
Less accumulated depreciation ..	12,284	10,543	
	$ 18,393	$ 19,269	

7. Intangible Assets

Excluding goodwill and intangible assets reclassified into goodwill as of December 31, 2001, amortization expense on intangible assets was $2.7 million and $0.4 million for the three months ended March 31, 2002 and 2001, respectively.

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

2002	$10,731
2003	10,700
2004	10,237
2005	8,789
2006	7,928

Intangible assets consist of the following (in thousands):

	March 31, 2002		December 31, 2001		
	Gross Carrying Amount	Accum. Amort-zation	Gross Carrying Amount	Accum Amorti-zation	Us L
Developed technology	$ 36,767	$ 1,804	$36,767	$ 463	6.9
Patents	22,032	2,241	21,891	1,424	6.7
Employment agreements	5,010	417	5,010	104	4.0
Other	4,309	2,054	5,186	2,025	5.0
	$ 68,118	$ 6,516	$68,854	$4,016	6.5

8. Accrued Expenses

Accrued expenses consists of the following (in thousands):

	March 31, 2002	December 31, 2001
Deferred revenue	$ -	$ 1,494
Accrued warranty obligation	416	743
Accrued income taxes	5,221	5,289
Deferred income taxes	493	492
Other	5,748	7,081
	$11,858	$15,099

9. 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 months ended March 31, 2002 and the benefit for the three months ended March 31, 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%. The impact of this change on deferred income taxes was recorded in the third quarter of 2000 when the law was enacted.

10. Notes Payable

At March 31, 2002, Microtune KG has a credit agreement with a bank that provides for borrowings of up to $0.9 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 (6.75% at March 31, 2002). At March 31, 2002, no borrowings were outstanding under this credit agreement.

11. 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. 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. No hearing date has been set for the motion.

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 Chief Financial Officer and Vice President of Finance and Administration, and several investment banking firms that served as underwriters of our initial public offering. Microtune, Mr. Bartek and Mr. Rogers were served with notice 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. 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 and we expect that the cases will be consolidated into a single action. 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 who is expected to set a brief schedule for motions to dismiss. 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.

12. Stock Plans

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 and 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 March 31, 2002 and December 31, 2001, unamortized deferred stock compensation was $24.7 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.

13. 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 during the first half of 2002. At March 31, 2002 accrued restructuring costs totaled $0.7 million. Such costs are expected to be paid in cash during the first half of 2002.

14. 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, the Netherlands and Singapore and a manufacturing facility in the Philippines. Revenues by geographical area are summarized below (in thousands):

	Three Months Ended March 31,	
	2002	2001
North America	$ 5,045	$ 10,003
Europe	4,647	3,678
Asia Pacific	8,551	3,896
Other	-	82
	$ 18,243	$ 17,659

Sales to DaimlerChrysler, Askey and Terayon (through their subcontractor Cal-Comp Electronic) accounted for approximately 21%, 14% and 10%, respectively, of consolidated net revenues for the three months ended March 31, 2002. Sales to DaimlerChrysler, Com21 and Ericsson accounted for approximately 20%, 15% and 10%, respectively, of consolidated net revenues for the three months ended March 31, 2001

Property and equipment are summarized below (in thousands):

	March 31, 2002	December 31, 2001
North America	$ 7,556	$ 7,131
Europe	7,962	8,943
Philippines	2,080	2,336
Asia Pacific	795	859
	$ 18,393	$ 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 this report, which describes factors that could cause actual events to differ materially from those contained in the forward looking statements.

Overview

We are a silicon and systems company that designs, manufactures, and markets radio frequency (RF) based solutions for the global broadband communications, automotive electronics, and wireless connectivity markets.

History

We were incorporated in Texas in May 1996 and began operations in August 1996. In June 2000, we reincorporated in Delaware. From inception until December 31, 1999, our primary activities consisted of raising capital, recruiting radio frequency and analog engineers, developing our silicon integrated circuit tuner for broadband radio frequencies and initiating relationships with potential customers and suppliers.

In January 2000, we combined with Temic Telefunken Hochfrequenztechnik GmbH (GmbH) and its affiliated companies (collectively, referred to as Temic). Temic was founded in the early 1900's in Germany. In the late 1940's, Temic began developing mechanical radio frequency tuners, and in the late 1960's, it was the first company to develop an electronic radio frequency tuner. The two companies have been operating as one company since the combination in January 2000. In addition, GmbH converted to a KG and changed its name to Microtune GmbH & Co. KG (Microtune KG), in August 2000.

In October 2001, we acquired a design center located in the Netherlands. This design center was founded in the mid-1980's in the Netherlands and is focused on the development of digital VLSI chips and associated software, targeted at the digital television equipment market.

In November 2001, we consummated our acquisition of Transilica Inc. (Transilica). Transilica was founded in 1998 and designs system-on-chip silicon products for next-generation short-range wireless applications. The products Transilica is developing consist of highly integrated solutions incorporating radio transceivers, digital baseband and software on a single chip, which offer customers low-power consumption and small form factors. Transilica's initial products are targeted at the Bluetooth and 802.11 standards, which are communication protocols for short-range wireless applications. To date, Transilica's activities have consisted primarily of product research and development. The first production revenues have been earned from the sale of Transilica's Bluetooth products during the three months ended March 31, 2002. Transilica is also capable of designing customized system-on-chip solutions to meet a customer's specific application requirements.

See Note 2 of our Notes to Consolidated Financial Statements for additional information on our business acquisitions.

Financial Information

Since inception we have incurred significant losses, and as of March 31, 2002, we had an accumulated deficit of approximately $124.1 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" in this Form 10-Q, 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 Electric in Landshut, Germany.

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 March 31,	
	2002	2001
Net revenues	100 %	100 %
Cost of revenues	63	80
Gross margin	37	20
Operating expenses:		
Research and development:		
Stock option compensation	14	2
Other	48	22
	62	24
Selling, general and administration:		
Stock option compensation	4	3

Other	30	22
	34	25
Restructuring costs	-	-
Amortization of intangible assets and goodwill	15	10
Total operating expenses	111	59
Loss from operations	(74)	(39)
Other income (expense)	2	6
Loss before income taxes	(72)	(33)
Income tax expense (benefit)	-	2
Net loss	(72)%	(31)%

Comparison of the Three Months Ended March 31, 2002 and 2001

Net Revenues

Our net revenues increased $0.6 million, or 3%, to $18.2 million in the three months ended March 31, 2002, from $17.7 million in the three months ended March 31, 2001. This increase is primarily due to growth experienced in the broadband communications sector, as well as sales from the initial production in the Bluetooth(TM) wireless connectivity products during the first quarter of 2002. Sales to DaimlerChrysler, Askey and Terayon (through their subcontractor Cal-Comp Electronic) accounted for approximately 21%, 14% and 10%, respectively, of consolidated net revenues for the three months ended March 31, 2002. Sales to DaimlerChrysler, Com21 and Ericsson accounted for approximately 20%, 15% and 10%, respectively, of consolidated net revenues for the three months ended March 31, 2001. Sales to our twenty largest customers, including sales to their respective manufacturing subcontractors, accounted for approximately 94% and 91% of our revenues for the three months ended March 31, 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 three months ended March 31, 2002 were $11.5 million, or 63% of net revenues, compared to $14.1 million, or 80% of net revenues, in the three months ended March 31,

2001. Our gross margins in the three months ended March 31, 2002 increased compared to the same period for 2001 as a result of the consolidation of our factories in Manila in the fourth quarter 2001 and strength in silicon sales. 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 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 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 and prototype subcontract materials. 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 for the three months ended March 31, 2002 were $11.4 million, or 62% of net revenues, compared to $4.3 million, or 24% of net revenues, in the three months ended March 31, 2001. The increase in research and development expenses primarily reflects the acquisitions of SPaSE 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 $2.6 million in the three months ended March 31, 2002 and $0.3 million in the three months ended March 31, 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 for the three months ended March 31, 2002 were $6.1 million, or 34% of net revenues, compared to $4.5 million, or 25% of net revenues, in the three months ended March 31, 2001. The increase relates to significant increases in legal expenses due to the lawsuit we filed alleging patent infringement in the United Sates Court for the Eastern District of Texas, Sherman Division, against Broadcom Corporation and the additional selling and general administrative costs associated with the ongoing expenses resulting from the acquisitions of SPaSE in October 2001 and Transilica in November 2001. Stock option compensation related to selling, general and administration was $0.8 million and $0.6 million in the three months ended March 31, 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 three months ended March 31, 2002 was $2.7 million compared to amortization of intangible assets and goodwill of $1.8 million for the three months ended March 31, 2001. Amortization of intangible assets and goodwill results principally from our combinations with Microtune KG, SPaSE 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 $1.4 million in the first quarter of 2002.

However, amortization of recorded intangible assets increased by $2.3 million in the first quarter of 2002 as the result of the acquisitions of Transilica and SPaSE.

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 three months ended March 31, 2002 was $0.8 million compared to $1.1 million for the three months ended March 31, 2001. The decrease is mainly due the significant decrease in interest rates averaging approximately 3.75% to 4.00% from first quarter 2001 to first quarter 2002.

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.

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 months ended March 31, 2002 and the benefit for the three months ended March 31, 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%. The impact of this change on deferred income taxes was recorded in the third quarter of 2000 when the law was enacted.

Liquidity and Capital Resources

As of March 31, 2002, we had net working capital of $168.6 million, including $164.2 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 $7.2 million in cash during the three months ended March 31, 2002 which was $3.8 million more than the $3.4 million used in operating activities for the three months ended March 31, 2001. The increase in cash used is primarily due to increased expenses due to the growth of the company primarily from the Transilica acquisition on November 28, 2001 and a comparably smaller increase in revenue due to emerging products. Cash was used to decrease current liabilities by $4.8 million which was partially offset by an increase of $2.5 million in operating assets.

Investing activities used $1.1 million in cash during the three months ended March 31, 2002, which was $3.0 million less than the $4.1 million used in investing activities for the three months ended March 31, 2001. Investments in property and equipment were $1.2 million and $4.1 million in the three months ended March 31, 2002 and 2001, respectively. We expect capital expenditures to range from $1.0 million to $4.0 million per quarter through 2002.

Financing activities used $0.2 million in cash during the three months ended March 31, 2002, which was a change of $1.7 million compared to the $1.5 million provided by financing activities for the three months ended March 31, 2001. We received cash of approximately $0.6 million and $0.9 million from the sale of common stock upon the exercise of options and from shares purchased under our Employee Stock Purchase Plan during the three months ended March 31, 2002 and 2001, respectively. We also incurred $0.5 million for the remainder of costs from our December 18, 2001 follow-on public public offering when we issued 5 million shares of common stock resulting in net proceeds of approximately $109 million to us.

At March 31, 2002, Microtune KG had a credit agreement with a bank that provides for borrowings of up to $0.9 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 6.75% at March 31, 2002. At March 31, 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 2002. 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

The following discusses our exposure to market risk related to changes in interest rates, equity prices and foreign currency exchange rates. This discussion contains forward looking statements that are subject to risks and uncertainties. Actual results could vary materially as a result of a number of factors including those set forth in the "Factors Affecting Future Operating Results and Stock Price" section. Following our combination with Temic, we now transact both sales and purchases in multiple foreign currencies, including the Euro and Philippine Peso. Due to the volatile nature of the currency markets, there is a potential risk of foreign currency translation losses, as well as gains.

A significant portion of our operations consists of manufacturing and sales activities in foreign jurisdictions. Our products are manufactured in the United States, Germany, the Philippines, Taiwan, and Malaysia. We also have sales offices and design centers located throughout other parts of the world. We also incur operating costs in currencies other than the U.S. dollar, in particular the Euro and the Philippine Peso. As a result, our financial results could be significantly affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which we produce and distribute our products. Our operating results are exposed to changes in the exchange rates between the U.S. dollar and the Philippine Peso and the Euro. When the U.S. dollar strengthens against the Euro, the value of nonfunctional currency sales decreases and the value of nonfunctional currency operating costs increase. When the U.S. dollar weakens, the value of nonfunctional currency sales increases and the value of nonfunctional currency operating costs decreases.

We currently do not use derivative financial instruments to hedge our balance sheet exposures against future movements in exchange rates. However, we are currently evaluating our exchange risk management strategy, including changes in our organizational structure and other capital structuring techniques to manage our currency risk. Our net investment in foreign subsidiaries, translated into U.S. Dollars using exchange rates at March 31, 2002, was $54.7 million. A potential loss in the value of this net investment resulting from a hypothetical 10% adverse change in foreign exchange rates would be approximately $5.5 million.

Currently, our cash and cash equivalents are invested in bank deposits, money market funds and asset-backed commercial paper. Our investments in asset-backed commercial paper are comprised of high-quality securities in accordance with our investment policy. The carrying value of these cash

equivalents approximates fair market value. Our investments are subject to interest rate risk, the risk that our financial condition and results of operations could be adversely effected due to movements in interest rates. If interest rates were to decrease by 100 basis points, our investment income would be impaired by approximately $1.6 million based on our cash and cash equivalents as of March 31, 2002.

Euro Conversion

Twelve European Union member states (Germany, France, the Netherlands, Austria, Italy, Spain, Finland, Ireland, Belgium, Greece, Portugal and Luxembourg) have adopted the Euro as their common national currency. On January 1, 2002, Euro-denominated bills and coins were issued, and by July 1, 2002, only the Euro will be accepted as legal tender in these countries. We do not expect future balance sheets, statements of operations or statements of cash flows to be significantly impacted by the Euro conversion.

FACTORS AFFECTING FUTURE OPERATING RESULTS AND STOCK PRICE

This report contains forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward looking statements as a result of certain factors, including those set forth below and elsewhere in this report.

If we are unable to migrate our customers over time from our modules using discrete components to our radio frequency silicon products or our modules that incorporate our radio frequency silicon products, our operating results could be harmed.

Our future success will depend on our ability to continue the successful migration of our customers from our modules that use discrete components to our radio frequency silicon products, or to MicroModules containing the MicroTuner and our other silicon products, by convincing leading equipment manufacturers to select these products for design into their own products. If we are not able to convince these manufacturers to incorporate our silicon products our operating results could be harmed.

We are just beginning our transition to the Oracle ERP system and we may be unable to complete the transition efficiently or effectively.

We began the process of moving all of our ERP systems to Oracle in late 2001. We plan to begin the move of our accounting functions and financial statement reporting systems to Oracle in 2002. Manufacturing forecasting, purchasing, and planning will be transitioned to Oracle later. We may not be able to complete the transition on a timely and cost-effective basis. In addition, we could experience a disruption in our manufacturing, invoicing our customers, or other functions during the transition to Oracle.

We may be unable to effectively integrate operations related to the Transilica Acquisition and any acquisition that we may complete in the future.

We acquired Transilica on November 28, 2001, and we are still in the process of integrating Transilica's operations with ours. Integrating operations of two ongoing businesses can be difficult, especially when they are located in different countries. In addition to integrating the operational aspects of our two companies, we will also face challenges coordinating and consolidating our financial reporting

functions. For example, our accounting functions utilize different software programs. We may not be able to complete this integration on a timely and cost-effective basis.

The Transilica acquisition and future acquisitions may require significant capital infusions and typically involve a number of special risks, including the inability to obtain, or meet conditions imposed for governmental approvals for the acquisition, the diversion of management's attention to the assimilation of the operations and personnel of acquired businesses, the unpredictability of costs related to the acquisition and the difficulty of integration of acquired businesses, products, technologies and employees into our business and product offerings. Achieving the anticipated benefits of any acquisition will depend, in part, upon whether integration of the acquired business, products, technology, or employees is accomplished in an efficient and effective manner, and there can be no assurance that this will occur. The difficulties of such integration may be increased by the necessity of coordinating geographically disparate organizations, the complexity of the technologies being integrated, and the necessity of integrating personnel with disparate business backgrounds and combining different corporate cultures. For example, Transilica has operations in Japan, Taiwan and Singapore and has a corporate culture that may differ in certain respects from our own. Accordingly, there can be no assurance that we can successfully integrate the business and personnel of Transilica or any future acquisitions into our own.

The inability of management to successfully integrate any acquisition that we may pursue, and any related diversion of management's attention, could have a material adverse effect on our business, operating results and financial position. Moreover, there can be no assurance that any products acquired will gain acceptance in our markets, that we will be able to penetrate new markets successfully or that we will obtain the anticipated or desired benefits of such acquisitions. We plan to acquire Transilica in part to incorporate its wireless/LAN product offerings into our product offerings. Despite our belief that Transilica's products will be accretive and synergistic to our business, there can be no assurance that Transilica's products will gain acceptance by our current customers or that they will enable us to penetrate new markets. Also, acquired products may contain defects of which we are unaware which may result in increased and unanticipated development costs. In addition, acquisitions may materially and adversely affect our results of operations because they may result in significant one-time accounting charges or could result in increased debt or contingent liabilities, adverse tax consequences, substantial depreciation or deferred compensation charges, acquired in-process research and development expenses, or the amortization of amounts related to deferred compensation, and intangible assets. Any acquisition that we pursue or consummate could result in the incurrence of debt and contingent liabilities, goodwill and other intangibles, other acquisition-related expenses, and the loss of key employees. Moreover, we cannot predict accounting regulations, conventions, interpretations and related issues that may emerge in the future which could have a material adverse effect on our business, operating results or financial position.

We cannot assure you that we will be able to consummate any pending or future acquisitions or that we will realize the benefits anticipated from these acquisitions. We have limited organizational experience in acquiring and integrating businesses, and we will need to develop the relevant skills if we are to be successful in realizing the benefits of any future acquisitions. In the future, we may not be able to find other suitable acquisition opportunities that are available at attractive valuations, if at all. Even if we do

find suitable acquisition opportunities, we may not be able to consummate the acquisitions on commercially acceptable terms. In addition, we may need to issue equity securities that could be dilutive to our existing stockholders in order to consummate such acquisitions.

The intensive capital and cash requirements of Transilica could have a material adverse effect on our business, operating results, financial position or future prospects and could cause a substantial decline in the trading price of Microtune's common stock.

Transilica is a capital-intensive business and we anticipate that Transilica will require significant cash to fund its operations. The intensive capital and cash requirements of Transilica could cause a drain on our cash reserves, or could require us to access the capital markets or pursue private equity or debt investment by outside third parties to further fund the operation of Transilica's business. There can be no assurances that our funding of Transilica's cash requirements will enable Transilica to meet its product development and sales objectives. Furthermore, the intensive capital and cash requirements of Transilica could have material adverse effect on Microtune's business, operating results, financial position or future prospects and could cause a substantial decline in the trading price of Microtune's common stock.

Transilica is currently in the research and development phase of its product development and it does not currently generate significant revenue from the sales of its products.

There can be no assurance that if Transilica's products achieve commercial viability, they will be accepted by our current customers or that such products will enable us to penetrate new markets. The inability of Transilica's products to gain acceptance with our current and potential customers could have a material adverse effect on Microtune's business, operating results, financial position or future prospects.

As a result of the Transilica Acquisition and any significant future acquisitions that we complete in which a substantial amount of equity securities of Microtune are issued, the holders of Microtune common stock will experience immediate and substantial dilution to their percentage stockholdings of Microtune.

Upon closing of the Transilica Acquisition, Microtune issued shares equivalent to 19.99% of its outstanding common stock to the shareholders of Transilica. Upon the issuance of this stock, the holdings of the current stockholders of Microtune were substantially diluted. The issuance and registration by Microtune of shares of its common stock in any acquisition may cause the price of our common stock to decline. A decline in the price of our common stock could also negatively affect our ability to pursue future acquisitions, or cause future acquisitions to be more dilutive.

We are dependent upon third parties, some of whom compete with us, for the supply of components for our module manufacturing. Our failure to obtain components for our module manufacturing would seriously harm our ability to ship modules to our customers in a timely manner.

Many of the components for our modules are sole-sourced, meaning that we depend upon one supplier for a specific component. At times we have experienced significant difficulties in obtaining an adequate supply of components necessary for our manufacturing operations, which have on occasion prevented us from delivering radio frequency products to our customers in a timely manner. For example, in 2000, we

did not receive our expected allocation of components from several significant sole-source suppliers which constrained our ability to meet customer demand. Failure to meet customer demand can result in customers selecting competitor products. We are not able to quantify the amount of lost revenues due to our failure to satisfy customer demand, but we believe the loss of revenue may have been material in 2000, and may be material in the future. We may experience similar shortages of components in the future.

We usually do not have long-term supply agreements with our suppliers and instead obtain components on a purchase order basis. Our suppliers typically have no obligation to supply products to us for any specific period, in any specific quantity or at any specific price, except as set forth in a particular purchase order. Our requirements often represent a small portion of the total production capacity of our suppliers, and our suppliers may reallocate capacity to other customers even during periods of high demand for our radio frequency products. In addition, some of our suppliers offer or may offer products that compete with our radio frequency products. As a result, these suppliers may preferentially allocate their components to in-house or third party manufacturers, rather than us.

If our suppliers were to become unable or unwilling to continue manufacturing or supplying the components that we utilize in our radio frequency products, our business would be seriously harmed. As a result, we would have to identify and qualify substitute suppliers or design around the component. This would be time-consuming and difficult, and may result in unforeseen manufacturing and operations problems. This may also require our customers to requalify our parts for their products, which may be a lengthy process. The loss of a significant supplier or the inability of a supplier to meet performance and quality specifications or delivery schedules could impede our ability to meet customer demand for timeliness, performance and quality, which could harm our reputation and our business.

If we are unable to develop and introduce new radio frequency products successfully and in a cost-effective and timely manner or to achieve market acceptance of our new products, our operating results would be substantially harmed.

Our future success depends on our ability to develop new radio frequency products for existing and new markets, introduce these products in a cost-effective and timely manner, meet customer specifications and convince leading equipment manufacturers to select these products for design into their own new products. Our quarterly results in the past have been, and are expected in the future to continue to be, dependent on the introduction and market acceptance of a relatively small number of new products and the timely completion and delivery of those products to our customers. For example, we believe that market acceptance of our radio frequency integrated circuits for the cable modem market were limited until the time that we introduced radio frequency integrated circuits with the power requirements that conformed to the evolving specifications of some cable modem manufacturers.

The development of new radio frequency products is highly complex, and from time to time we have experienced delays in completing the development and introduction of new products. In addition, some of our new product development efforts are focused on producing silicon products utilizing architectures and technologies with which we have no experience and delivering performance characteristics such as low

power consumption at levels that we have not previously achieved. If we are not able to develop and introduce these new products successfully and in a cost-effective and timely manner, we will not be able to penetrate our target markets successfully and our operating results would be substantially harmed.

We face intense competition in the broadband communications and radio frequency tuner markets, which could reduce our market share in existing markets and affect our ability to enter new markets.

The broadband communications and radio frequency tuner markets are intensely competitive. We expect competition to continue to increase as industry standards become well known and as other competitors enter our target markets. We compete with, or may in the future compete with, a number of major domestic and international suppliers of integrated circuit and system modules in the cable modem, PC/TV, set-top box, cable telephony, digital TV and automotive markets. We compete primarily with tuner manufacturers such as Alps, Panasonic, Philips Electronics, Samsung and Thomson, with semiconductor companies such as Anadigics, Analog Devices, Broadcom and Maxim, and potentially with companies such as Conexant and Silicon Wave. Conexant, Broadcom and Silicon Wave have announced silicon tuner products that compete with our tuner products. Among other things, several of our competitors have broader product and service offerings and could bundle their competitive tuner products with other products and services they offer. This competition has resulted and may continue to result in declining average selling prices for our radio frequency products.

Many of our current and potential competitors have advantages over us, including:

- longer operating histories and presence in key markets;
- greater name recognition;
- access to larger customer bases;
- significantly greater financial, sales and marketing, manufacturing, distribution, technical and other resources;
- relationships with potential customers as a result of the sales of other components, which relationships our competitors can leverage into sales of products competitive with our radio frequency products; and
- broader product and service offerings that may allow them to compete effectively by bundling their products.

As a result, our competitors may be able to adapt more quickly to new or emerging technologies and changes in customer requirements and may be able to devote greater resources to the development, promotion and sale of their products.

Consolidation by industry participants, including in some cases, acquisitions of some of our customers or suppliers by our competitors, or acquisitions of our competitors by our customers or suppliers, could

create entities with increased market share, customer base, technology and marketing expertise in markets in which we compete. In fact, some of our suppliers offer or may offer products that compete with our radio frequency products. These developments may significantly and adversely affect our current markets, the markets we are seeking to serve and our ability to compete successfully in those markets, thereby harming our results of operations.

The average selling price of our products will likely decrease over time. If the selling price reductions are greater than we expect, our operating results will be harmed.

Historically, the average selling price of our products has decreased over the products' lives. In addition, as the markets for radio frequency integrated circuit products and transceivers mature, we believe that it is likely that the average unit prices of our radio frequency products will decrease in response to competitive pricing pressures, increased sales discounts, new product introductions and product bundling. To offset these decreases, we rely primarily on achieving yield improvements and other cost reductions for existing products and on introducing new products that can often be sold at higher average selling prices.

Although we will seek to increase the sales of our higher margin products, our sales, product and process development efforts may not be successful. Our new products or processes may not achieve market acceptance. To the extent we are unable to reduce costs or sell our higher margin products, our results of operations would suffer.

We expect our quarterly operating results to continue to fluctuate.

Our quarterly results of operations have fluctuated significantly in the past and may fluctuate significantly in the future due to a number of factors, many of which are not in our control. These factors include:

- timing, cancellation and rescheduling of significant customer orders, which result in revenues being shifted from one quarter to another;

- the ability of our customers to procure the necessary components for their end-products that utilize our radio frequency tuners to conduct their operations as planned for any quarter;

- pricing concessions on volume sales to particular customers for established time frames;

- slowdowns in customer demand and related industry-wide increases in inventories;

- our inability to predict our customers' demand for our products;

- changes in our product and customer mix between quarters;

- labor disputes at our manufacturing facility in the Philippines, which may cause temporary slowdowns or shutdowns of operations;

- quality problems with our radio frequency tuners that result in significant returns; and

- allocation of wafer capacity for our silicon products and/or allocation of components used in our module products.

Our manufacturing operations could be adversely impacted and our financial performance harmed if we fail to successfully transition manufacturing operations from our union facility to our newer facility.

Microtune previously operated two manufacturing facilities in Manila, Philippines the assembly, calibration, and testing of its module products. In December 2001, we closed the older of the two facilities, and began transitioning all manufacturing and testing requirements to the newer facility. We believe the newer manufacturing facility has the equipment and labor capacity to handle the manufacturing and testing previously performed in our older facility, however, we are still in the process of training personnel in sufficient number to fully utilize the new facility and have been unable to achieve linearity in our production in the newer facility. Failure to achieve linearity in production can result in delayed shipments and have adverse accounting consequences such as an increase in our accounts receivable balance at quarter end. If we are unable to successfully transition the manufacturing operations of our older facility to our newer facility, we may not meet our manufacturing and testing requirements which could cause a significant delay in our ability to deliver our products. Any delay caused by such a disruption could require us to seek an alternative manufacturer at increased expense and cost. As a result, a disruption or delay in the transition from our older facility to our newer facility could have a material negative impact on our business operations and our financial results.

Our dependence on a single manufacturing facility could jeopardize our operations.

Upon closing of our older manufacturing facility in Manila, Philippines, our manufacturing operations will be conducted at a single, newer facility in Manila, Philippines. Our reliance on a single manufacturing facility exposes us to higher manufacturing risks, which may include risks caused by labor disputes, terrorism, political unrest, war, process abnormalities, human error, theft, government intervention, or a natural disaster such as a fire, earthquake, or flood. As a result of our dependence on a single manufacturing facility, and if we encounter any significant delays or disruptions, we may not be able to meet our manufacturing and testing requirements which could cause a significant delay in our ability to deliver our products. Any delay caused by such a disruption could require us to seek an alternative manufacturer at increased expense and cost. As a result, any disruption or delay in procuring an alternative manufacturing facility could have a negative impact on our business operations and our financial results.

Our QS9000 Certification is subject to periodic re-evaluation.

We are currently QS9000 certified in both our Manila manufacturing facility and our design center in Ingolstadt, Germany. This certification is subject to recertification on a periodic basis. Failure to achieve recertification could substantially reduce our revenue from automobile customers which could have material and adverse effects on our operating results, financial condition, and business prospects in the automotive electronics market.

Some of our automobile customers require us to sign "line down" clauses.

We are currently subject to "line down" clauses in some contracts with our automobile customers. Such clauses require us to pay financial penalties if our failure to supply product in a timely manner causes the customer to slow down or stop their production. Such a penalty could be large and if incurred, could severely harm our financial results.

Product recall by a major customer could damage our business.

Module manufacturing involves the assembly and testing of our components, including our semiconductors into subsystem level solutions designed by our engineers for specific applications. We consolidated our module manufacturing facilities in Manila into one plant during 2001 for better efficiency and cost, and in the process, we have achieved a number of benefits, including reduced indirect head count, efficient production-floor layout, and optimized product flow. We have complete on-site power generation for full electrical back up in the Manila manufacturing facility and it is located in a secure industrial park. The facility is both ISO 9001 and QS 9000 certified

We guarantee quality of our products for a period of one year. If a customer experiences a problem with our product and subsequently returns our products to us in large quantities for rework, replacement, or refund, the cost to us could be significant and severely impact our financial results.

We believe that transitioning our silicon products to higher performance process technologies will be important to our future competitive position. If we fail to make this transition efficiently, our competitive position could be seriously harmed.

We continually evaluate the benefits, on a product-by-product basis, of migrating to higher performance process technologies in order to produce more efficient and higher performance integrated circuits. We believe this migration is required to remain competitive. Other companies in the industry have experienced difficulty in migrating to new process technologies and, consequently, have suffered reduced yields, delays in product deliveries and increased expense levels. We may experience similar difficulties.

Moreover, we are dependent on our relationships with foundries to successfully migrate to higher performance processes. Our foundry suppliers may not make higher performance process technologies available to us on a timely or cost-effective basis, if at all. If our foundry suppliers do not make higher performance process technologies available to us on a timely or cost-effective basis or if we experience difficulties in migrating to these advanced processes, our competitive position and business prospects could be seriously harmed.

Because we depend on a few significant customers for a substantial portion of our revenues, the loss of a key customer could seriously harm our business.

We have derived a substantial portion of our revenues from sales to a relatively small number of customers. As a result, the loss of any significant customer could significantly harm our revenues. Sales to DaimlerChrysler, Askey and Terayon (through their subcontractor Cal-Comp Electronic) accounted for approximately 21%, 14% and 10%, respectively, of consolidated net revenues for the three months ended March 31, 2002. Sales to DaimlerChrysler, Com21 and Ericsson accounted for approximately 20%, 15% and 10%, respectively, of consolidated net revenues for the three months ended March 31, 2001. We

believe that our future operating results will continue to depend on the success of our largest customers and on our ability to sell existing and new products to these customers in significant quantities. The loss of a key customer or a reduction in our sales to any key customer could harm our revenues and consequently our financial condition.

If we are unable to continue to sell existing and new products to our key customers in significant quantities or to attract new significant customers, our future operating results could be harmed.

We may not be able to maintain or increase sales to our key customers or to attract new significant customers for a variety of reasons, including the following:

- most of our customers can stop purchasing our radio frequency products with limited notice to us without incurring any significant contractual penalty;

- most of our customers typically buy our radio frequency products through a purchase order, which does not require them to purchase a minimum amount of our radio frequency products;

- many of our customers and potential customers have pre-existing relationships with our current or potential competitors, which may affect their decision to purchase our radio frequency products;

- some of our customers or potential customers offer or may offer products that compete with our radio frequency products; and

- our longstanding relationships with some of our larger customers may also deter other potential customers who compete with these customers from buying our radio frequency products.

If we do not maintain or increase sales to existing customers or attract significant new customers, our revenues would diminish and consequently our business would be harmed.

The sales cycle for our radio frequency products is long, and we may incur substantial non-recoverable expenses and devote significant resources to sales that may not occur when anticipated or at all.

Our customers typically conduct significant evaluation, testing, implementation and acceptance procedures before they purchase our radio frequency products. As a result, we may expend significant financial and other resources to develop customer relationships before we recognize any revenues from these relationships, and we may never recognize any revenues from these efforts. Our customers' evaluation processes are frequently lengthy and may range from three months to one year or more. In many situations, our customers design their products to specifically incorporate our radio frequency products, and our radio frequency products must be designed to meet their stringent specifications. This process can be complex and may require significant engineering, sales, marketing and management efforts on our part. This process may also require significant engineering and testing on the part of our customers and if our customers do not have sufficient capabilities to complete the process, our revenues could be negatively impacted.

Uncertainties involving the ordering and shipment of our radio frequency products could harm our business.

Our sales are typically made pursuant to individual purchase orders, and we generally do not have long-term supply arrangements with our customers, including our most significant customers in terms of volume of sales. Our sales orders typically provide that our customers may cancel orders until 90 days prior to the shipping date and may reschedule shipments up to 30 days prior to the shipping date; however, in the past, we have permitted customers to cancel orders less than 90 days before the expected date of shipment, in many cases with little or no penalty. Moreover, we routinely manufacture or purchase inventory based on estimates of customer demand for our radio frequency products, which demand is difficult to predict. The cancellation or deferral of product orders, the return of previously sold products or overproduction due to the failure of anticipated orders to materialize could result in our holding excess or obsolete inventory that could substantially harm our business, financial condition and results of operations. In addition, our inability to produce and ship radio frequency products to our customers in a timely manner could harm our reputation and damage our relationships with our customers.

We customize a substantial portion of our radio frequency products to address our customers' specific radio frequency needs. If we do not sell our customer-specific products in large volumes, we may be unable to cover our fixed costs or may be left with substantial unsaleable inventory.

We manufacture a substantial portion of our radio frequency products to address the needs of individual customers. Frequent product introductions by systems manufacturers make our future success dependent on our ability to select development projects that will result in sufficient volumes to enable us to achieve manufacturing efficiencies. Because customer-specific radio frequency products are developed for unique applications, we expect that some of our current and future customer-specific radio frequency products may never be produced in volume and may impair our ability to cover our fixed manufacturing costs. In addition, if our customers fail to purchase these customized radio frequency products from us, we risk having substantial unsaleable inventory. If we have substantial unsaleable inventory, our financial condition would be harmed.

We depend on third-party wafer foundries to manufacture all of our integrated circuit products, which reduces our control over the integrated circuit manufacturing process and could increase costs and decrease availability of our integrated circuit products.

We do not own or operate a semiconductor fabrication facility. We primarily rely on IBM, TSMC and X-FAB, outside foundries, to produce most of our integrated circuit radio frequency products. We do not have a long-term supply agreement with our foundries and instead obtain manufacturing services on a purchase order basis. Our foundries have no obligation to supply products to us for any specific period, in any specific quantity or at any specific price, except as set forth in a particular purchase order. Our requirements represent a small portion of the total production capacity of these foundries, and they may reallocate capacity to other customers even during periods of high demand for our integrated circuits. If our foundries were to become unable or unwilling to continue manufacturing our integrated circuits, our business would be seriously harmed. As a result, we would have to identify and qualify substitute foundries, which would be time consuming and difficult, resulting in unforeseen manufacturing and operations problems. In addition, if competition for foundry capacity increases, our product costs may increase, and we may be required to pay significant amounts to secure access to manufacturing services. If we do not qualify or receive supplies from additional foundries we may be exposed to increased risk of capacity shortages due to our dependence on IBM, TSMC and X-FAB.

We depend on third-party subcontractors for integrated circuit packaging and testing, which reduces our control over the integrated circuit packaging process and testing and could increase costs and decrease availability of our integrated circuit products.

Our integrated circuit products are packaged and tested by independent subcontractors, including Amkor and Carsem, using facilities located in South Korea,Philippines and Malaysia. We do not have long-term agreements with Amkor or Carsem and typically obtain services from them on a purchase order basis. Our reliance on Amkor and Carsem involves risks such as reduced control over delivery schedules, quality assurance and costs. These risks could result in product shortages or increase our costs of packaging our products. If Amkor or Carsem are unable or unwilling to continue to provide packaging and testing services of acceptable quality, at acceptable costs and in a timely manner, our business would be seriously harmed. We would also have to identify and qualify substitute subcontractors, which could be time consuming and difficult and may result in unforeseen operations problems.

Our inability to maintain or grow revenues from international sales could harm our financial results.

For the three months ended March 31, 2002, 72% of our net revenues were from sales outside of North America. We plan to increase our international sales activities by hiring additional international sales personnel. Our international sales will be limited if we cannot do so. Even if we are able to expand our international operations, we may not succeed in maintaining or increasing international market demand for our products.

Currency fluctuations related to our international operations could harm our financial results.

A significant portion of our international revenues and expenses are denominated in foreign currencies. Accordingly, in the past, we have experienced significant fluctuations in our financial results due to changing exchange rates rather than operational changes. For example, in the three months ended March 31, 2002, we recognized a foreign currency exchange loss of approximately $0.3 million or approximately 3% of the net loss for the period. We expect currency fluctuations to continue, which may significantly impact our financial results in the future. We may choose to engage in currency hedging activities to reduce these fluctuations.

Our international operations, including our operations in Germany, the Philippines, the Netherlands, Singapore, Japan, Hong Kong, Taiwan and Korea, may be negatively affected by actions taken or events that occur in these countries.

We currently have facilities and suppliers located outside of the U.S., including research and development operations in Germany, the Netherlands, and Singapore, a manufacturing facility in Manila, Philippines, and sales offices in Japan, Hong Kong, Taiwan and Korea. Substantially all of our suppliers are located outside the U.S., and substantially all of our products are manufactured outside the U.S. As a result, our operations are affected by the local conditions in those countries, as well as actions taken by the governments of those countries. For example, if the Philippines government enacts restrictive laws or regulations, or increases taxes paid by manufacturing operations in that country, the cost of manufacturing our products in Manila could increase substantially, causing a decrease in our gross margins and profitability. In addition, if the U.S. imposes significant import restrictions on our products, our ability to import our products into the U.S. from our international manufacturing and packaging facilities could be diminished or eliminated. Local economic and political instability in areas in the Far East, in particular in the Philippines where there has been political instability in the past, could result in unpleasant or intolerable conditions for our workers, and ultimately could result in a shutdown of our facilities.

International operations that we may develop or acquire in the future may subject us to additional business risks, including political instability, and changing or conflicting laws, regulations and tax systems.

We may develop or acquire additional international operations in Europe and the Pacific Rim region. International expansion or acquisitions, and any subsequent international operations, could be affected by the local conditions in those countries, as well as actions taken by the governments of those countries. To expand our operations internationally, we will have to comply with the laws and regulations of each country in which we conduct business. For example, if a foreign government enacts restrictive laws or regulations, or increases taxes paid by manufacturing operations in that country, the cost of manufacturing our products in that country could increase substantially, causing a decrease in our gross margins and profitability. We cannot assure you that we will be successful in obtaining any necessary regulatory approvals, or in complying with applicable regulations in those countries. Furthermore, even if such approvals are obtained or such regulations are complied with, we cannot assure you that we will be able to continue to comply with these regulations.

Our success could be jeopardized if key personnel leave.

Our future success depends largely upon the continued service of our executive officers and other key management and technical personnel. Our success also depends on our ability to continue to attract, retain and motivate qualified personnel. Our personnel represent a significant asset as the source of our technological and product innovations. The competition for qualified personnel is intense in the radio frequency silicon and radio frequency systems industries. We cannot assure you that we will be able to continue to attract and retain qualified management, technical and other personnel necessary for the design, development, manufacture and sale of our radio frequency products. We may have difficulty attracting and retaining key personnel particularly during periods of poor operating performance. The loss of the services of one or more of our key employees or our inability to attract, retain and motivate qualified personnel could harm our business.

We must manage our growth.

If we fail to manage our growth, our reputation and results of operations could be harmed. Our total number of employees has grown from 171 as of March 31, 2001 to 352 as of March 31, 2002, excluding manufacturing personnel in

Manila, Philippines. In addition, as of March 31, 2002, we had 1,815 manufacturing personnel in the Philippines. The growth has placed, and is expected to continue to place, significant demands on our personnel, management and other resources. We must continue to improve our operational, financial and management information systems to keep pace with the growth of our business.

Our business may be harmed if we fail to protect our proprietary technology.

We rely on a combination of patents, trademarks, copyrights, trade secret laws, confidentiality procedures and licensing arrangements to protect our intellectual property rights. We currently have patents issued and pending in the U.S. and in foreign countries. We intend to seek further U.S and international patents on our technology. We cannot be certain that patents will be issued from any of our pending applications, that patents will be issued in all countries where our products can be sold or that any claims will be allowed from pending applications or will be of sufficient scope or strength to provide meaningful protection or any commercial advantage. Our competitors may also be able to design around our patents. The laws of some countries in which our products are or may be developed, manufactured or sold, including various countries in Asia, may not protect our products or intellectual property rights to the same extent as do the laws of the U.S., increasing the possibility of piracy of our technology and products. Although we intend to vigorously defend our intellectual property rights, we may not be able to prevent misappropriation of our technology. Our competitors may also independently develop technologies that are substantially equivalent or superior to our technology.

Despite our efforts and procedures to protect our intellectual property through the prosecution of patents, trademarks, copyrights and trade secrets and other methods, we cannot assure you that our current intellectual property or any intellectual property we may acquire through acquisitions or by other means will be free from third party claims which may be valid. In connection with recent acquisitions, including the Transilica acquisition, we conducted due diligence investigations of the intellectual property of these targeted companies for the purpose of assessing the protection efforts by these companies on their respective intellectual property. We cannot assure you that our investigatory efforts uncovered all or any defects related to the protection of intellectual property we acquired. As a result, intellectual property we acquire, including the intellectual property we acquired in the Transilica acquisition or in other acquisitions, may not be free from third party claims. Any third party claims may lead to costly and time consuming litigation which could harm our business and financial position.

Our efforts to protect our intellectual property may cause us to become involved in costly and lengthy litigation which could seriously harm our business.

We may become involved in litigation in the future to protect our intellectual property or defend allegations of infringement asserted by others. Legal proceedings could subject us to significant liability for damages or invalidate our proprietary rights. Any litigation, regardless of its outcome, would likely be

time consuming and expensive to resolve and would divert management's time and attention. Any potential intellectual property litigation also could force us to take specific actions, including:

- ceasing the sale of our products that use the challenged intellectual property;

- obtaining from the owner of the infringed intellectual property right a license to sell or use the relevant technology, which license may not be available on reasonable terms, or at all; or

- redesigning those products that use infringing intellectual property.

As a result, the expense associated with intellectual property litigation or management's diversion from daily operations of our business caused by any intellectual property litigation may have a negative impact on our business and our financial results.

Furthermore, we have initiated, and may initiate in the future, claims or litigation against third parties for infringement of our proprietary rights or to establish the validity of our proprietary rights. 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 is in the initial phases of discovery and its outcome is uncertain. If we are unsuccessful in this litigation or other similar claims, then Broadcom and others will be able to compete directly against us, which would materially adversely effect our ability to sell our products and grow our business. Any current or future litigation by or against us or one of our customers could result in significant expense and divert the efforts of our technical personnel and management, whether or not the litigation results in a favorable determination.

We are the target of several securities fraud class action complaints and are at risk of securities class action litigation. This could result in substantial costs to us, drain our resources and divert our management's attention.

Beginning July 11, 2001, multiple 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 (S.D.N.Y. July 25, 2001), Atlas v. Microtune et al (S.D.N.Y. Aug. 7, 2001) and Ellis Investment Ltd. v. Goldman Sachs & Co., Inc. et al (S.D.N.Y. August 7, 2001). Purportedly, the complaints are brought 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 ("Buddy") Rogers, our Chief Financial Officer and Vice President of Finance and Administration, and several investment banking firms that served as underwriters of our initial public offering. Microtune, Mr. Bartek and Mr. Rogers were served with notice on the Atlas complaint on August 22, 2001, however, they have not been served on the other referenced complaints. The Berger and Ellis Investment Ltd. complaints assert claims against the underwriters only. More such lawsuits may be filed. Among other things, the complaints allege liability under the federal securities laws on the grounds that the registration statement for the initial public offering did not disclose that: (1) the underwriters had agreed to allow certain customers to purchase shares in the offering in exchange for excess commissions paid to the underwriters; and (2) the underwriters had

arranged for certain 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 and we expect that the cases will be consolidated into a single action. 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 who is expected to set a briefing schedule for motions to dismiss. We believe that the allegations against Microtune. 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.

Our ability to sell our radio frequency products may suffer if any outstanding claims of intellectual property infringement against us or one of our customers is valid, if any other third party claims that we or our customers infringe on their intellectual property or if any of our issued patents are proven to be invalid.

The electronics industry is characterized by vigorous protection and pursuit of intellectual property rights and positions, which have resulted in significant and often protracted and expensive litigation. In addition, our customers may be subject to infringement claims for products incorporating our radio frequency products. If any claims of infringement are made against any of our customers, our customers may seek to involve us in the infringement claim and request indemnification from us. For example, we could be notified of a claim against one of our customers for which the customer would make a claim for indemnification from us. If the claim resulted in an adverse result for our customer, it may reduce or completely eliminate marketing of its infringing product, which would decrease sales of our radio frequency products to this customer. Further, if our customer prevailed in its claim for indemnification against us, or if we were found to infringe on any other third- party intellectual property, we could be required to:

- pay substantial damages such as royalties on our historical and future product sales;
- indemnify our customers for their legal fees and damages paid;
- stop manufacturing, using and selling the infringing products;
- expend significant resources to develop non-infringing technology;
- discontinue the use of some of our processes; or
- obtain licenses to the technology.

We may be unsuccessful in developing noninfringing products or negotiating licenses upon reasonable terms. These problems might not be resolved in time to avoid harming our results of operations.

Our customers' products are subject to governmental regulation.

Governmental regulation could place constraints on our customers and consequently minimize their demand for our radio frequency products. The Federal Communications Commission, or FCC, has broad jurisdiction over several of our target markets in the U.S. Similar governmental agencies regulate our target markets in other countries. Although our products are not directly subject to current regulations of the FCC or any other federal or state communications regulatory agency, much of the equipment into which our products are incorporated is subject to direct government regulation. Accordingly, the effects of regulation on our customers or the industries in which they operate may, in turn, impede sales of our products. For example, demand for our radio frequency products will decrease if equipment incorporating our products fails to comply with FCC emissions specifications.

We may be unable to obtain the capital required to grow our business.

From time to time, we may need to raise funds to meet our working capital and capital expenditure needs through the sale of securities under this prospectus or through other financing alternatives. We cannot be certain that we would be able to obtain additional financing on favorable terms, if at all. Our capital requirements depend upon several factors, including the rate of market acceptance of our products, our ability to expand our customer base, our level of expenditures for sales and marketing, the cost of product and service upgrades and other factors. If our capital requirements vary materially from those currently planned, we may require additional financing sooner than anticipated. Further, if we issue equity securities, stockholders will experience additional dilution and the new equity securities may have rights, preferences or privileges senior to those of existing holders of common stock. If we issue debt securities, the debt securities will have rights senior to those of existing holders of equity securities generally. If we cannot raise funds, if needed, on acceptable terms, we may not be able to develop our products and services, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements, any of which could harm our ability to grow our business.

Future sales of our securities or the expectation of or uncertainty about those sales may cause our stock price to decline.

The market price of our common stock or any other securities that we issue could decline as a result of the registration or sale of substantial amounts of our securities, including common stock, in the public market or to private investors, or the expectation or uncertainty that those sales could occur. These sales or the possibility that they may occur also could also make it more difficult for us to raise funds through future offerings of securities.

Provisions in our charter documents, Delaware law and our Shareholder Rights Plan may deter takeover efforts that you may feel would be beneficial to you.

Several provisions of our amended and restated certificate of incorporation and Bylaws may discourage, delay or prevent a merger or acquisition that you may consider favorable and therefore may harm our stock price. Those provisions include:

- authorizing the issuance of "blank check" preferred stock;
- providing for a classified board of directors with staggered, three-year terms;
- prohibiting cumulative voting in the election of directors;
- limiting the persons who may call special meetings of the board or the stockholders;

- prohibiting stockholder action by written consent;

- establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings; and

- establishing super-majority voting requirements in some instances.

Management will have broad discretion in using the proceeds of any offering of our securities.

We need to retain flexibility to respond to factors affecting our business. Accordingly, our management will retain broad discretion as to the allocation of the proceeds of any offering of our securities and may use the proceeds in a manner with which you may not agree. If our management does not effectively use the proceeds from any offering of our securities, we may not be able to operate and grow our business successfully.

If we do not anticipate and adapt to evolving industry standards in the radio frequency tuner and broadband communications and wireless connectivity markets, or if industry standards develop more slowly than expected, our products could become obsolete and we could lose market share.

Products for broadband communications and wireless connectivity applications generally are based on industry standards that are continuously evolving. In some cases, the development of these standards takes longer than originally anticipated. We have directed our development toward producing radio frequency products that comply with the evolving standards. The delayed development of a standard in our target markets has resulted in slower deployment of new technologies, which may harm our ability to sell our radio frequency products, or frustrate the continued use of our proprietary technologies. The continued delay in the development of these industry standards could result in fewer manufacturers purchasing our radio frequency products in favor of continuing to use the proprietary technologies designed by our competitors. Such delayed development of industry standards and the resulting slower deployment of new technologies would result in diminished and/or delayed revenues and consequently harm our business. Further, if new industry standards emerge, our products or our customers' products could become unmarketable or obsolete. In addition, we may incur substantial unanticipated costs to comply with these evolving standards.

Our ability to adapt to changes and to anticipate future standards and the rate of adoption and acceptance of those standards is a significant factor in maintaining or improving our competitive position and prospects for growth. Our inability to anticipate the evolving standards in the broadband communications and wireless connectivity markets and, in particular, in the radio frequency market, or to develop and introduce new products successfully into these markets, could result in diminished revenues and consequently harm our business.

Other technologies for the broadband communications market will compete with some of our target markets. If these technologies prove to be more reliable, faster or less expensive or become more popular, the demand for our radio frequency products and our revenues may decrease.

Some of our target markets, such as cable modem and cable telephony services, are competing with a variety of non-radio frequency based broadband communications technologies, including digital subscriber line technology. Many of these technologies may compete effectively with cable modem and cable telephony services. If any of these competing technologies are more reliable, faster or less expensive, reach more customers or have other advantages over radio frequency based broadband technology, the demand for our radio frequency products and our revenues may decrease.

Our success depends on the continued growth of the broadband communications markets generally and the radio frequency product markets specifically.

We derive a substantial portion of our revenues from sales of radio frequency products into markets related to broadband communication applications, in particular, the cable modem market. These markets are characterized by:

- intense competition;
- rapid technological change; and
- short product life cycles, especially in the consumer electronics markets.

Although the broadband communications markets generally have grown rapidly in the last few years, these markets may not continue to grow or a significant slowdown in these markets may occur. In particular, the set-top box, cable modem and cable telephony markets may not grow at a rate sufficient for us to achieve profitability. Because of the intense competition in the broadband communications markets, the unproven technology of many products addressing these markets and the short life cycles of many consumer products, it is difficult to predict the potential size and future growth rate of the radio frequency product markets. In addition, the broadband communications markets are transitioning from analog to digital, as well as expanding to new services, including internet access, cable telephony and interactive television. The future growth of the radio frequency product markets are partially dependent upon the market acceptance of products and technologies addressing the broadband communications markets, and we cannot assure you that the radio frequency technologies upon which our products are based will be

accepted by any of these markets. If the demand for radio frequency products is not as great as we expect, we may not be able to generate sufficient revenues to become successful.

Our success depends on the adoption of our wireless connectivity products in markets such as cordless phones, wireless headsets, and PC peripherals.

We expect to derive a substantial portion of our revenue from sales of wireless connectivity products into markets currently served by alternative wired products. These alternative wired products may compete effectively with our wireless connectivity products and could be more reliable, less expensive, or have other advantages.

The semiconductor industry is cyclical. If there is a sustained upturn in the semiconductor market, there could be a resulting increased demand for foundry services, significantly reducing product availability and increasing our costs.

The semiconductor industry periodically experiences increased demand and production capacity constraints. An increased demand for semiconductors could substantially increase the cost of producing our radio frequency products, particularly our integrated circuit products, and consequently reduce our profit margins. As a result, we may experience substantial period-to-period fluctuations in future results of operations due to general semiconductor industry conditions.

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. 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. No hearing date has been set for the motion.

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 Chief Financial Officer and Vice President of Finance and Administration, and several investment banking firms that served as underwriters of our initial public offering. Microtune, Mr. Bartek and Mr. Rogers were served with notice 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. 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 and we expect that the cases will be consolidated into a single action. 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 who is expected to set a brief schedule for motions to dismiss. 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

No matters were submitted to a vote of security holders during the quarter ended March 31, 2002.

Item 5. Other Information

Not applicable

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

12. Computation of Ratio of Earnings to Fixed Charges

(b) Reports on Form 8-K

An 8-K was filed by the Registrant on March 18, 2002 regarding the adoption of a Shareholders Rights Plan and certain amendments to the Registrant's bylaws.

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: May 15, 2002

/s/ Everett (Buddy) Rogers

Everett (Buddy) Rogers
Chief Financial Officer and Vice President of Finance and Administration (Principal Financial and Accounting Officer)